



SECRETARY'S SPECIAL BRIEFING AND LUNCHEON

U.S. Department of State

March 20, 1984

Washington, D.C.

OFFICE OF
THE SECRETARY OF STATE
WASHINGTON

AGENDA

Secretary's Special Briefing and Luncheon

ROOM: Secretary's Conference Room, Operations Center

PROGRAM:

9:45 a.m. Meeting Called to Order - Mr. Gilbert A. Robinson, Special Advisor to the Secretary for Public Diplomacy

9:50 Remarks - The Honorable Lawrence S. Eagleburger, Under Secretary of State for Political Affairs

10:00 - 11:00 Briefing - "Central America: An Overview of the Problems Facing the Region and U.S. Policy," The Honorable Langhorne A. Motley, Assistant Secretary of State for Inter American Affairs

11:00 - 11:40 - Briefing - "Intelligence on Central America," The Honorable William J. Casey, Director of the Central Intelligence Agency

11:40 - 12:00 - Briefing - "An Inside View of the Sandinista Revolution," Geraldine O'Leary de Macias, former American Maryknoll Nun in Nicaragua

12:00 - 12:30 - Reception - John Quincy Adams Room

12:30 - 2:00 - Luncheon hosted by The Honorable George P. Shultz, Secretary of State
Thomas Jefferson Room



United States Department of State

Washington, D.C. 20520

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BRIEFING KIT
Secretary's Special Briefing
for
Chief Executive Officers
March 20, 1984

- I. Agenda.
- II. List of Participants(CEOs and USG).
- III. Briefing Book: Central America-Democracy, Peace, and Development Initiative.
- IV. CBI:New Opportunities for American Business. .

GUEST LIST

TUESDAY, MARCH 20, 1984

12:00-12:30 - John Quincy Adams Room
12:30-2:00 - Thomas Jefferson Room

Mr. Robert A. Beck, Chairman
Prudential Insurance Company of America

Mr. W. Michael Blumenthal, Chairman
Burroughs Corporation

Mr. William W. Boeschstein, President
Owens-Corning Fiberglas Corporation

Mr. William H. Bricker, Chairman
Diamond Shamrock Corporation

Mr. Douglas D. Danforth, Chairman
Westinghouse Electric Corporation

Mr. Edwin D. Dodd, Chairman
Owens-Illinois, Inc.

Mr. John C. Duncan, Chairman (Ret'd)
St. Joe Minerals Corporation

Mr. Joseph P. Flannery, President
Uniroyal, Inc.

Mr. Joseph B. Flavin, Chairman
Singer Company

Mr. John R. Hall, Chairman
Ashland Oil, Inc.

Mr. Peter D. Hannaford, Chairman
Hannaford Company, Inc.

Mr. Robert A. Hanson, Chairman
Deere & Company

Mr. William R. Haselton, Chairman
St. Regis Corporation

Mr. Robert Hellendale, Chairman
Great Northern Nekoosa Corporation

Mr. T. A. Holmes, Chairman
Ingersoll-Rand Company

Mr. Wesley J. Howe, Chairman
Becton Dickinson & Company

Mr. Edward G. Jefferson, Chairman
E.I. duPont de Nemours & Company

Mr. Donald P. Kelly, Chairman
Esmark, Inc.

Mr. David S. Lewis, Chairman
General Dynamics Corporation

Mr. F. W. Luerssen, Chairman
Inland Steel Company

Mr. Seymour Milstein, Chairman
United Brands Company

Mr. George B. Munroe, Chairman
Phelps Dodge Corporation

Mr. William C. Norris, Chairman
Control Data Corporation

Mr. J. Allen Overton, Jr., President
American Mining Corporation

Mr. Charles W. Parry, Chairman
Aluminum Company of America

Mr. Thomas L. Phillips, Chairman
Raytheon Company

Mr. Robert A. Pritzker, President
The Marmon Group, Inc.

Mr. Orin R. Smith, Acting Chief Executive Officer
Engelhard Corporation

Mr. Roger B. Smith, Chairman
General Motors Corporation

Mr. Anthony Stout, Chairman
Government Research Corporation

U.S. Government Officials

SECRETARY SHULTZ - HOST

Hon. William J. Casey, Director, Central Intelligence Agency

Hon. Faith Whittlesey, Assistant to the President for
Public Liaison

Hon. Kenneth W. Dam, Deputy Secretary, Department of State

Hon. Lawrence S. Eagleburger, Under Secretary for Political
Affairs, Department of State

Hon. J. William Middendorf, II, U.S. Permanent Representative
to the Organization of American States, Department of State

Hon. William Schneider, Jr., Under Secretary for Security
Assistance, Science and Technology, Department of State

Hon. Edward J. Derwinski, Counselor, Department of State

Hon. Selwa Roosevelt, Chief of Protocol, Department of State

Hon. Langhorne A. Motley, Assistant Secretary for Inter-
American Affairs, Department of State

Hon. W. Tapley Bennett, Jr., Assistant Secretary for
Legislative and Governmental Affairs, Department of State

Hon. Otto J. Reich, Coordinator of Public Diplomacy for Latin
America and the Caribbean, Department of State

Hon. Gilbert A. Robinson, Special Advisor to the Secretary for
Public Diplomacy, Department of State

Mr. Walter Raymond, Jr., Special Assistant to the President
for National Security Affairs, National Security Council

Hon. Gerald B. Helman, Deputy to the Under Secretary for
Political Affairs and Director, Office of Public Diplomacy,
Department of State

Mr. John T. McCarthy, Deputy Assistant Secretary for Public
Affairs, Department of State

Mr. Robert Reilly, Associate Director, Office of Public Liaison,
The White House

CARIBBEAN BASIN

CBI Begins To Help Economies In Region

By Robert H. Bateman

U.S. exports to the countries of the Caribbean (Central America, the Caribbean islands, Suriname and Guyana) held up surprisingly well in 1983, considering the serious economic problems continuing to plague the region.

A principal factor in this relative trade stability was the steady, or in some cases, increased dollar earnings of Caribbean Basin exports to the United States. This trend will be accentuated in 1984, as most countries of the Caribbean Basin region begin to boost export earnings even more as a result of duty-free access of most of their products to the U.S. market, the principal benefit of the Caribbean Basin Initiative (CBI).

An analysis of 1983 U.S. trade data for selected Caribbean Basin countries shows increased non-petroleum imports from the region generally. This provided the wherewithal last year to support a slight strengthening of U.S. exports to these countries compared to 1982.

While all are relatively small in size, Caribbean Basin economies are not identical in character; there are unique differences from one country to another that must be taken into account. U.S. exports to Panama, for example, fell from \$825 million in 1982 to \$748 million in 1983, primarily as a result of a decline in Colon Free Zone activity. This development, in turn, can be attributed to a simultaneous contraction in the South American market and other markets to which Colon Free Zone merchants traditionally re-export.

President Reagan has already designated 20 countries beneficiaries of CBI legislation. A duty-free access provision went into effect for the following countries on Jan. 1, under interim regulations issued by the U.S. Customs Service: Antigua, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Monserrat, the Netherlands Antilles, Panama, St. Christopher-Nevis, St. Lucia, St.

Vincent and Trinidad & Tobago.

Seven countries remain eligible to be designated as CBI beneficiaries. They are Anguilla, Bahamas, Caymans, Guyana, Nicaragua, and the Turks & Caicos.

Although it is much too early to identify concrete results of the CBI, U.S. companies are becoming increasingly interested in possible joint ventures or direct sourcing in the region, especially involving products that face relatively high U.S. duties when originating in non-CBI countries. Many of these companies are considering moving closer to home their off-shore operations now existing in the Far East and elsewhere. Doing so would permit savings on transportation time and costs and would allow the companies to take advantage of duty-free entry under the CBI.

CBI's indirect export effects

Some U.S. suppliers are beginning to feel indirect export effects of the CBI as well. One manufacturer of irrigation equipment reports a sudden increase in price-quote requests from the Caribbean Basin region in the weeks since duty-free entry of virtually all agricultural goods became a reality, underscoring the importance of agro-industries as a sector likely to grow in response to CBI incentives.

Most Caribbean countries have stepped up their efforts to attract foreign investment, both through promotion of such traditional advantages as lower wage rates and tax holidays and by removing long-standing disincentives to local investment in export industries.

An attraction sometimes overlooked by potential U.S. investors is the duty-free access to European markets available in the case of products made in the following Caribbean Basin countries: Antigua, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, St. Vincent, Suriname, and Trinidad & Tobago. The Lome Convention, a treaty signed by these countries with the ten member-states of the European Community, provides for this advantage. Thus a local joint venture could supply both the United States and Europe, once its production meets the rules of origin and other requirements of both the CBI and the

Lome Convention. It should be noted that for purposes of determining the national origin of a product under the CBI, value added in Puerto Rico and the U.S. Virgin Islands is considered to be of CBI beneficiary origin.

The second principal element of CBI legislation is a convention tax benefit that allows "North American treatment" of reasonable expenses incurred by U.S. firms and individuals attending business conventions in a CBI beneficiary country. Implementation of this benefit remains contingent on a tax information exchange agreement between that country and the United States. The Dominican Republic, for one, has already begun discussions leading to such an agreement, and a number of other Caribbean Basin countries have expressed interest. This benefit could increase U.S. business travel in the region and stimulate upgrading of local tourist and convention facilities. The services and equipment needed for such an upgrading are expected to come in large part from the United States.

In the case of Central America, CBI benefits would be complemented by other economic measures recommended by the President's National Bipartisan Commission on Central America. The Commission proposed an emergency stabilization program based largely on a major increase in economic assistance for Central America from the United States and other countries. A number of other specific recommendations would build directly on the CBI to enhance its effectiveness. President Reagan has endorsed most of the Commission's recommendations and is expected to send draft legislation to Congress shortly.

The CBI and other U.S. programs will not solve the short-run economic problems of the region. U.S. exporters should expect some rough sledding in 1984 as individual countries step up austerity programs, devalue their currency and impose further exchange restrictions. But those U.S. companies taking a long-term view of doing business with the Caribbean and Central America are likely to ride out these difficulties and maintain, or even build, market share.

Additional information can be obtained from the Commerce Department's Caribbean Division by telephoning 202-377-2527.

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MAR 1984



DEPARTMENT OF STATE

Washington, D.C. 20520

March 13, 1984

MEMORANDUM FOR: Honorable William Casey
Director
Central Intelligence Agency

Subject: Your Participation in CEO Briefing - March 20

Following up on our brief telephone conversation of yesterday, here is the way things stand for the CEO briefing:

PLACE: State Department Operations Center Conference Room, 7th Floor (as you know, there is a podium for your use plus three rear projection screens for slides or film, should you want to use them)

TIME: Your portion of the briefing is from 11:00-11:40am.

OTHER PARTICIPANTS SCHEDULED:

9:45 - Under Secretary Eagleburger - Welcomes

10:00 - 11:00 - Ambassador Langhorne Motley briefs on US policy in Central America and the Caribbean, and may touch on Latin America. Will have at least a 30-minute Q&A session. As of now, he will give a summation of where we stand with the legislation (a difficult job!)

11:00 - 11:40 - William Casey

11:40 - 12:00 - Geraldine O'Leary de Macias, former Maryknoll Nun from Nicaragua

SUGGESTIONS FOR YOUR PARTICIPATION:

A) I hope that you will spell out the Soviet and Cuban threat in the area. (Tony Motley is deliberately not going to touch on this at all.) If possible, my own personal opinion is that it would be dramatic if you could give an estimate

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of the refugee problem that the Gulf Coast States would be faced with from boat people and others by land should the region come under Communist control.

In the mailgram of invitation, we state that the briefing is off the record. I will be introducing you and the others and I will repeat that clearly. If there's anything in particular you'd like me to highlight in your introduction, please let me know.

- B) The 12:00-12:30 reception will give you time to talk individually with those of your friends and others who are here and want to meet you. Your participation has evoked very nice interest.
- C) Lunch - You will be hosting a table.

Please let me know on the attached list of approximately 30 acceptances to date if there's anyone in particular you'd like seated next to you or on either side.



Gilbert A. Robinson
Special Advisor for
Public Diplomacy

Attachment:

Guest list

United States Department of State

Briefing Book

Central America Democracy, Peace and Development Initiative



United States Department of State

Briefing Book

Central America Democracy, Peace and Development Initiative



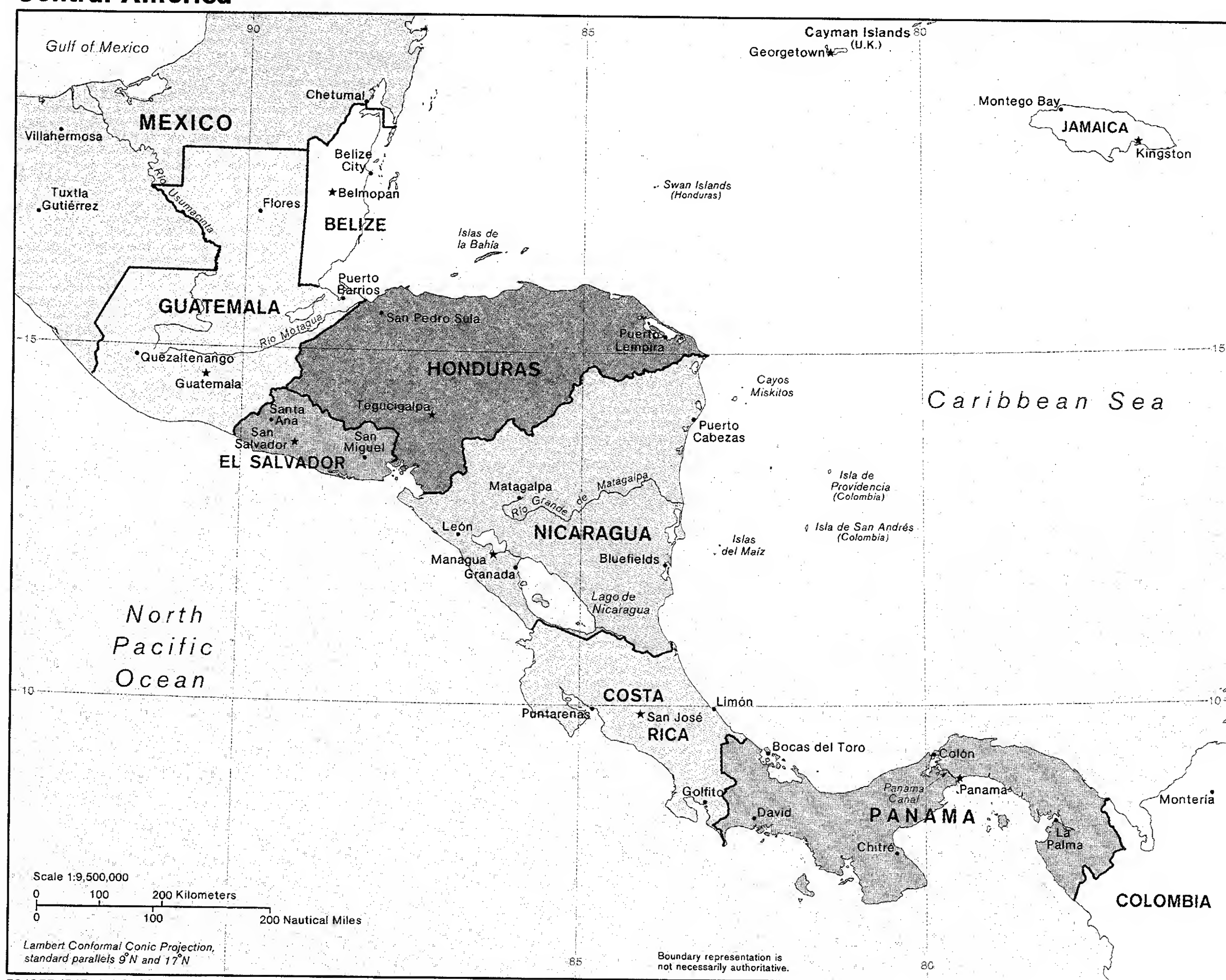
Office of Public Diplomacy for
Latin America and the Caribbean

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10. Military Assistance Program Overview
11. U.S. Government Statements of Policy

Office of Public Diplomacy
for
Latin America and the Caribbean

Central America



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PRESIDENT'S CENTRAL AMERICA
DEMOCRACY, PEACE AND DEVELOPMENT INITIATIVE

OVERVIEW

- o The recommendations of the National Bipartisan Commission on Central America come at a critical time in the development of democracy, the restoration of peace, and the improvement of living conditions in Central America.
- o The twelve commissioners -- Democrats, independents and Republicans -- concluded that "Central America is both vital and vulnerable, and that whatever other crises may arise to claim the nation's attention the United States cannot afford to turn away from that threatened region."
- o The Commission and the Administration agree that the acute crisis in Central America endangers fundamental strategic and moral interests of the U.S.
- o Accordingly, the President, through legislation and appropriate executive actions, will seek to implement all the Commission's recommendations.
- o The program emphasis recommended by the Commission, and accepted by the Administration for implementation, is on economic aid and policy reform to get at root causes of poverty and political unrest.
- o The crucial importance of social and economic factors is reflected in our proposed budget figures. In FY 1985 alone, the proposed levels for economic assistance are almost seven times the levels for military aid. The total FY 1984 Supplemental/FY 1985 program for the region is 75% economic, as opposed to 25% military assistance.
- o As the Commission recommends, U.S. policy must be and is guided by the principles of democratic self-determination, economic and social development that fairly benefits all, respect for human rights, and cooperation in meeting threats to the security of the region.
- o Bipartisan support in Congress is needed for an increased commitment of resources to be provided predictably, beginning immediately and extending over the next five years, to support a balanced and mutually reinforcing mix of economic, political, diplomatic and security activities to be pursued simultaneously.

HIGHLIGHTS OF PROPOSED LEGISLATION

Economic Assistance

- o Commission recommended \$400 million in supplemental economic assistance in FY 1984.
 - Administration request is \$400 million.
 - Additional emergency transfers are needed to reverse sharp declines in Gross Domestic Product (GDP), per capita income, and employment.
 - During last several years, per capita GDP has fallen by 35% in El Salvador, 23% in Costa Rica, 14% in Guatemala, and 12% in Honduras.
 - Economic deterioration is a source of social and political unrest.
 - Supplemental request is primarily for emergency stabilization needed to set the base for a long-term comprehensive development plan.
- o Commission recommended \$8 billion economic aid for next five years, FY 1985-89.
 - The proposed implementation plan calls for \$5.9 billion in appropriated funds and \$2.0 billion in insurance and guarantees, principally for trade credits issued by the Export-Import Bank.
 - For FY 1985, the request is \$1,120.0 million in appropriated funds and \$600 million in insurance and guarantees.
 - Major beneficiaries of direct, bilateral aid in FY 1985 would be El Salvador (\$341.1 million), Costa Rica (\$208.0 million), Honduras (\$139.0 million), Guatemala (\$96.4 million), and regional programs (\$198.6 million).
 - Though El Salvador would be the largest single recipient, its share would not be disproportionate -- two other countries will receive more on a per capita basis as now planned.
- o Commission recommended a comprehensive approach to promote democratization, economic growth, human development and security. The Administration's plan for the first year (FY 1985) of a five year initiative includes the following:
 - Providing \$541 million as balance of payments support to finance critical imports by the private sector.
 - Undertaking a \$185 million program in labor intensive infrastructure and housing projects, funded by a combination of local currency generations of the balance of payments assistance program, Development Assistance, and guarantees.

- Spending more than \$100 million for education (including literacy and teacher corps), training and scholarships.
- Devoting \$210 million to development of agriculture, the backbone of Central American economies, funded with local currency generations of the balance of payments assistance program and Development Assistance.
- Including special funding for the National Endowment for Democracy, earmarked for Central America.
- Providing \$120 million in Public Law 480 agricultural commodities, with local currency proceeds used to reinforce important programs in, for example, the education and health sectors.

Military Assistance

- o The restoration of peace in Central America is essential to economic and humanitarian progress. Without enhanced security, economic assistance and diplomatic efforts would be undermined.
- o The Commission specifically recommends significantly increased levels of military aid to El Salvador and warns against providing "too little to wage the war successfully."
- o Military assistance requirements are as follows:
 - For El Salvador: \$178.7 million in FY 1984 supplemental assistance and \$132.5 million for FY 1985. Added to the \$64.8 million made available by the FY 1984 Continuing Resolution, the total FY 1984-85 program for El Salvador would be \$376 million.
 - The El Salvador program would be concentrated in FY 1984 in order to break the military stalemate and provide an adequate security shield for democracy and economic growth.
 - For the rest of Central America, \$80.3 million in FY 1984 supplemental military assistance and \$123.4 million in FY 1985 is proposed.
 - From the FY 1984 supplemental, Honduras will receive \$37.5 million, and \$25 million will be provided to the Regional Military Training Center (RMTC). In FY 1985, major recipients of military assistance (besides El Salvador) will be Honduras (\$62.5 million), Panama and the RMTC (\$20 million each).

- o The Commission recommends that military aid to El Salvador should be made "contingent" through legislation requiring periodic reports upon demonstrated progress in reaching certain enumerated objectives such as free elections and reduction of death squad activities.
- o There is agreement within the Executive, the Congress and the Commission that human rights progress is essential in El Salvador to ensure a successful outcome of the war and the protection of U.S. security and moral interests; U.S. assistance should be conditioned on progress in this as well as other priority objectives.
- o The Administration proposes legislation, therefore, that requires semi-annual assessments to Congress of the Government of El Salvador's policies for achieving political and economic development and conditions of security. This report is to include an assessment of how the policies are meeting U.S. objectives; among these objectives are the goals outlined in the Commission's report. Moreover, the legislation should call upon the President to ensure that military assistance fosters progress toward reaching overall U.S. objectives, including human rights, and toward this end directs him to impose conditions on military assistance in every appropriate instance.
- o The Administration and the Congress need to work closely to ensure human rights progress while preserving the President's ability to pursue an effective foreign policy.

Central American Development Organization (CADO)

- o In line with the Commission's recommendation, the legislation should provide guidance for the President to work with the Central American countries and other donors in establishing CADO.
- o CADO should provide an effective forum for an open dialogue on and continuous review of Central American political, economic and social development.
- o While ultimate control of aid funds should remain with Congress and the President, disbursement of 25% of economic assistance funds authorized under the legislation and allocated directly for each Central American country should be deferred until the U.S. and CADO have both approved.

USG Position

USG Position

PREPARED STATEMENT OF
THE HONORABLE LANGHORNE A. MOTLEY
ASSISTANT SECRETARY OF STATE FOR INTER-AMERICAN AFFAIRS
BEFORE THE
SUBCOMMITTEE ON WESTERN HEMISPHERE AFFAIRS
HOUSE FOREIGN AFFAIRS COMMITTEE
FEBRUARY 21, 1984

Mr. Chairman, I am pleased to appear before you to testify on the vitally important Central America Democracy, Peace and Development Initiative Act of 1984.

The exhaustive study made by the National Bipartisan Commission on Central America has enabled us to prepare a comprehensive response to the many-sided crisis in Central America.

The Administration and the Congress are now in a position to forge a complete program of action that meets both immediate operational needs and the requirements of a long-term strategy.

The bill the President has just transmitted to the Congress embodies those recommendations made by the Bipartisan Commission which cannot be implemented without legislation. As you know, the President will implement by Executive action those Commission recommendations that do not require new legislation. He urges prompt Congressional action and support for this bill.

This legislative package will help to stabilize economies and societies plagued by injustice and violence. At the same time, it will enable us to take the offensive against poverty and to foster democratic development, to increase respect for human rights, and to help bring lasting peace to this troubled region so close to the United States.

This prepared statement addresses:

- the report of the Bipartisan Commission;
- the major elements of the legislation; and
- some questions of policy and implementation.

I. The Report of the Bipartisan Commission

Perhaps the most striking aspect of the Commission's report is its honesty -- its candor in facing up to the complexities of Central America. The Commission could have focussed superficially on one or two "critical issues" which, if addressed in isolation, might have created the illusion of a broader solution.

To its credit, the Commission refused to oversimplify. It acknowledged that Central America's problems are complex, severe and deeply rooted, concluding flatly that they add up to a "seamless web" from which no quick fixes or shortcuts will free us. The U.S. interests involved, it pointed out, are both moral and strategic. And they are threatened by human rights abuse and by economic misery as well as by Cuban and Soviet intervention.

The Commission's recommendations are as comprehensive and direct as its analysis. It could have insisted on its mandate to deal with long-term issues -- and avoided the difficult questions we face now. It could have summarized the policies already being pursued by the Administration and given us credit for being on the right track. And it could have simply praised the peace efforts of the Central American countries and the central importance of negotiations like those underway in the Contadora process.

But the Commission was both unanimous and unambiguous in concluding that the long-term will be far less manageable if we fail to deal with existing challenges. It called for U.S. support for regional efforts like Contadora but said that the United States also has a special responsibility to contribute actively to the creation of economic, security, and political conditions required for peace. It concluded that we are not doing enough and recommended that the Administration and the Congress cooperate to ensure that we provide the resources we and our Central American friends need to work successfully together to attain a lasting peace built solidly on democracy and development.

The Commission refused to accept pre-cooked judgments and conventional platitudes. Bipartisan in composition and nonpartisan in mandate, the Commission approached its task with total independence. Mr. Chairman, you and I can both testify to the Commission's thoroughness and independence. We were both asked many questions. We were asked to identify the problems and to explain what we thought was needed to deal with them. But we were never asked whether this or that recommendation would "sell." We were never asked to compromise our views for reasons of political or administrative expediency.

The Commission's discussions with Central and Latin American leaders eliminated the screens created by distance, paperwork, and partisan preconceptions and exposed its members to the region's realities. They saw for themselves what is happening in El Salvador and in Nicaragua and throughout the isthmus.

From these experiences the Commission developed a perspective on Central America that combines:

- An enlightened understanding of the capacity of social and economic frustration to undermine stability and feed on itself to create yet more unhappiness and more instability;
- A technical knowledge of how world economic developments can influence, and at times devastate, struggling economies, and an equally informed insight into how those economies can renew their growth;
- A sophisticated understanding of the tactics and tools of the Soviet Union and Cuba, who would exploit these vulnerabilities and ultimately threaten us; and lastly
- A truly American insight for responding to the economic and political realities of Central America in a way that conforms to our neighbors' aspirations for peace, democracy and prosperity.

As a result, Mr. Chairman, what emerges from the Commission's report is the Central American dynamic itself. It is a dynamic in which communism, violence and dictatorship feed on misery, injustice and an unfortunate past. It is a destructive dynamic that oppresses the people of Central America, and will, unless altered, increasingly endanger the rest of the hemisphere.

II. The Central America Democracy, Peace and Development Initiative Act of 1984

To break this destructive dynamic will require action in support of democratic self-determination, economic and social development that fairly benefits all, and cooperation in meeting threats to the security of the region. That is the consensus of the Bipartisan Commission. It is the basis of the legislative package now before you.

Specifically, this is what the President proposes to implement the recommendations of the Bipartisan Commission:

A. Economic Assistance

Recognizing that economic deterioration aggravates social and political unrest, the Commission recommended an additional \$400 million this year for emergency stabilization to set the stage for long-term development.

Our supplemental request for FY 1984 is for \$400 million in emergency funds to halt sharp declines in Gross Domestic Product (GDP), per capita income, and employment. During the last several years, per capita GDP has fallen by 35% in El Salvador, 23% in Costa Rica, 14% in Guatemala, and 12% in Honduras. In four years, El Salvador has lost fifteen years of economic development.

The Commission recommended almost doubling our projected economic aid, to roughly \$8 billion over the next five years. This amount, which looks large until compared to the region's needs, would support a comprehensive strategy to promote democratization, economic growth, human development and security.

Our implementation plan for FY 1985-1989 calls for a total of \$5.9 billion in appropriated funds and off-budget guarantee authorities to allow for \$2 billion in insurance and guarantees, the latter including housing investment guarantees and a Trade Credit Insurance Program (TCIP) to be administered by the Export-Import Bank.

For FY 1985, we propose a program involving \$1.1 billion in appropriated funds and \$600 million in insurance and guarantees. Depending on country performance, we estimate that the major beneficiaries of direct, bilateral aid in FY 1985 would be El Salvador (\$341 m.), Costa Rica (\$208 m.), Honduras (\$139 m.), and Guatemala (\$96 m.). El Salvador, which has suffered over \$800 million in guerrilla destruction, would be the largest single recipient. Two other countries, however, would receive more on a per capita basis.

From a functional standpoint, this FY 1985 proposal includes:

- About \$550 million in balance of payments support to finance the import of critical goods by the private sector.
- \$120 million in Public Law 480 food assistance, with local currency proceeds used to reinforce programs in, for example, education and health;
- Major labor-intensive construction of infrastructure and housing;
- Significantly increased support for education, including literacy and teacher corps, training and scholarships;
- Major funding to develop commercial agriculture, the backbone of the Central American economies, including assistance to broaden ownership patterns and to increase the availability of credit;
- Increased funding for activities in Central America by the private National Endowment for Democracy;
- Funds to strengthen the administration of justice in the region as the surest way to safeguard individual liberties and human rights; and
- Support for the Central American Common Market and its companion Central American Bank for Economic Integration to revitalize intra-regional trade and restore economic production and employment.

B. Military Assistance

Peace is essential to economic and humanitarian progress in Central America. Without security, the best economic programs and the wisest diplomacy will be unable to stop the opponents of democracy.

The Commission recommended significantly increased levels of military aid to El Salvador warning specifically against providing "too little to wage the war successfully."

The President's proposal is as follows:

- For El Salvador: \$178.7 million in FY 1984 supplemental assistance and \$132.5 million for 1985. Added to the \$64.8 million available under this year's Continuing Resolution, the FY 1984-85 program for El Salvador would total \$376 million. This program would be concentrated in FY 1984 in order to break the military stalemate and provide as soon

as possible a firmer basis for economic recovery and democratic national reconciliation in El Salvador.

- For the rest of Central America: \$80.35 million in FY 84 supplemental military assistance and \$123.4 million for FY 1985. The lion's share would be allocated to Honduras, a democracy that still faces frequent violations of its national territory by Salvadoran guerrillas seeking refuge and using Honduras as a supply route, as well as by Honduran guerrillas infiltrated from Nicaragua. Honduras also faces a direct military threat from Nicaragua, which has built up armed forces at least five times larger than Somoza's National Guard and has received some \$250 million in military assistance from the Soviet bloc since 1979.

The Commission recommends that military aid to El Salvador should, through legislation requiring periodic reports, be made contingent upon demonstrated progress toward human rights objectives, including free elections and reduction in death squad activities.

There is agreement among the Executive, the Congress and the Commission that human rights progress is essential in El Salvador to ensure a successful outcome of the war and to protect U.S. security and moral interests. There is also a consensus that U.S. assistance should actively be used to achieve these objectives.

As this Committee knows, the Executive Branch and the Congress have not always seen eye to eye on how best to achieve this shared goal. My Executive Branch colleagues and I are firmly convinced that a statutory formula requiring determinations at arbitrary pre-set intervals on an "all-or-nothing" basis is not an effective approach. Experience shows that such a formula may actually trigger hostile action by guerrilla forces and focus attention on the certification process rather than on the underlying problems and their remedies.

We must find a means to condition our assistance in ways that work. This requires the flexibility to respond to specific circumstances as they exist at a given moment. Recent advances, which have taken place in the absence of a legislated certification requirement, demonstrate that alternatives do exist.

We are ready to work closely with the Congress to ensure continuing human rights progress while preserving the President's ability to pursue an effective foreign policy.

C. Central American Development Organization (CADO)

The Commission recommended creation of a Central American Development Organization (CADO) to give multilateral form and substance to economic development efforts.

In line with the Commission's recommendation, the proposed legislation sets forth principles to guide the negotiations for establishing this new institution in conjunction with the Central American countries and other donors.

The President has indicated that he intends to respect the principles set forth in the legislation, both in his negotiations and in subsequent U.S. participation in CADO. In line with these principles:

- CADO would provide an effective forum for an open dialogue on Central American political, economic and social development, and a continuous review of local policies and of the uses to which foreign assistance is put.
- Participation would be open to the U.S., other donors, and those Central American countries that commit themselves to, among other things, peace and mutual security, maintaining or making progress toward human rights development, building democracy, and encouraging economic growth through policy reforms. CADO would include representatives from both the public and private sectors, from labor and business, and be supported by a small professional staff.
- CADO would make recommendations on political, economic and social development objectives, mobilization of resources and external resource needs, and economic policies and structures. CADO would evaluate country performance and progress in meeting objectives.
- In this regard, disbursement of 25% of economic assistance funds authorized under this Act and allocated for each Central American country would be deferred until both the United States and CADO have approved. Consistent with the Constitution, ultimate control of U.S. aid funds would remain with Congress and the President.

D. Multiyear Funding

To ensure effective planning and predictability, the proposed economic assistance departs from the conventional practice of seeking authorizations for one or two years. We are seeking an authorization that will go beyond FY 1985 and

extend through FY 1989. In addition, we are requesting that appropriations under this authorization be made available beyond a single fiscal year.

The reason for this innovation is that the bill represents a five-year program. This is what was developed by the Commission, and it is supported by our own analysis. This approach has the fundamental virtue of enabling everyone concerned -- both in the United States and in Central America -- to know what could become available if performance standards are met.

III. Policy and Implementation

Many questions have arisen about this program.

- Are we asking for too much?
- Will our assistance be used effectively?
- Are we seeking a military solution in El Salvador?
- Shouldn't increased assistance follow a regional settlement?
- Will these additional resources solve the problem?

Let me take each in turn.

A. Are we asking for too much?

No. In fact, the sums are modest in relation to need.

As the Bipartisan Commission underlined, the need for external assistance is enormous. Physical infrastructure has been damaged, health and education systems need expansion, and investment in productive capacity is essential to employ the region's growing labor force.

There are those who counsel that we should provide less economic assistance. But is less than 15 percent of our proposed global economic aid budget for FY 1985 too large a price to pay to alleviate suffering and serve our interests in Central America?

Others advocate a reduction in military assistance. Yet there is no reduction in the arms, training, and other support flowing to the other side, a side that has rejected democracy and pluralism and utilizes violence as its chosen means to power.

Still others recommend that we withdraw altogether, because the situation is supposedly too tough for us, because regional forces of moderation and democracy are allegedly too weak, or because they discount the manifest intentions of the anti-democratic forces at work. The United States cannot, however, afford to withdraw and abandon Central America to poverty and communism.

Lastly, there are those who are willing to do something to help, but not enough. They don't want to shoulder the political consequences if those we support lose, but they are not willing to concede the assistance needed for them to win. They refuse to make a genuine commitment and continue to seek "quick fixes" that fail to address the fundamental issues of peace, democracy, security and honest reform. The Commission rightly singles out this approach as the most pernicious.

Assistance of \$8 billion over 5 years would be equivalent to about 5% of the Gross Domestic Product of the region. This is less than the aid previously made available to some other parts of the world.

Another useful measure of the ability of Central America to absorb these proposed levels of assistance is the shortfall in export earnings from coffee and sugar due to lower prices, plus higher costs for imported oil. This net hard currency loss amounts to about \$1.5 billion per year -- the same general magnitude as the proposed assistance.

Moreover, considerable excess capacity could quickly and easily be brought back into play, generating increased employment and output. Private firms need only working capital and imported inputs; in the public sector, high priority investment programs that have been suspended or cut back because of austerity programs lack only financial support to be reactivated.

B. Will the assistance be used effectively?

In the near term, the bulk of our resources will go to private-sector activities, not expansion of government bureaucracies.

In the longer term, we will also be providing the institution-building help, training, and technical assistance that will allow our neighbors to carry out larger-scale programs more efficiently.

Local policy reform will be required to receive and ensure effective use of our funds. We will not subsidize inefficiency and will strive to create opportunities and incentives for private sector investment. We hope that CADO will be an effective mechanism to this end. A key objective of CADO will be to consult the private sector to identify activities that will most increase productivity: neither government bureaucracy nor handouts, but the cutting edge of local production.

Capital flight was a serious problem for 3-4 years beginning about 1979. More recently, however, the Central Banks of the region have recognized the seriousness of the problem and are successfully working to prevent capital flight.

Our A.I.D. Missions also are providing useful advice and technical assistance to help Central American monetary authorities meet the challenge. As a result, outflows have been greatly reduced.

C. Are we seeking a military solution in El Salvador?

No. As President Reagan said last March, "the real solution can only be a political one," with the Salvadoran people deciding their own destiny through free and fair elections. That is not a "military solution." The military assistance we are requesting would provide the wherewithal for the Salvadoran armed forces to break the current stalemate and take and sustain the initiative to provide a stronger shield for protecting political and economic development. This would increase the incentives for the FDR/FMLN to enter into serious discussions with the Salvadoran Peace Commission about participation in elections. We doubt this will happen until the FDR/FMLN becomes convinced it cannot prevail militarily. Passage of our proposed assistance package, however, could be a deciding factor in ensuring participation of important elements of the far left in the 1985 municipal and legislative elections.

Though the amount of proposed military assistance is larger than that provided previously, we should bear in mind that the current military stalemate may be partly due to the inadequacy and uncertainty of past assistance. To continue an inadequate level of assistance may be tantamount to prolonging the war.

The amount of military assistance for El Salvador should also be kept in perspective: total FY 1984 military assistance for El Salvador (that provided in the Continuing Resolution plus the Supplemental request) is 3.6% of our worldwide military assistance, and the FY 1985 request for El Salvador is 2.1% of the global figure. The Bipartisan Commission stated that "there is...no logical argument for giving some [military] aid but not enough." We can afford the amount we are requesting, whether in terms of our important interests in Central America or of our worldwide responsibilities.

D. Shouldn't increased economic aid accompany or follow an overall regional settlement?

The economic assistance which we are requesting is essential support for any negotiated settlement. If we want to give peace a chance, we must begin now to rebuild the economies of Central America to create the climate for peace.

At some point in the future, if all the parties are ready for settlement, the peace process could proceed very rapidly. With our full support, Contadora has already prepared the groundwork for an agreement in its excellent 21-point Document of Objectives. But successful negotiations must reflect operational realities. The economies of Central America, fragile from the beginning, have been subjected to the stress of economic crisis and violence. If a regional peace agreement is signed, even with the best intentions of all the parties, it will not succeed if the nations of the region are suffering from economic collapse.

E. Will these additional resources solve the problem?

Resources alone will not solve the Central American crisis. But resource predictability can enable our diplomacy to take more effective advantage of the interplay between different policy instruments to channel events toward peaceful solutions, including negotiated solutions wherever possible.

What is needed, in addition to the provision of adequate levels of economic and military assistance, is demonstration by the U.S. of a long-term commitment, the adoption by Central American governments of appropriate economic, political, and social policies/reforms, and an active and long-term diplomacy for peace.

IV. Conclusion

This comprehensive policy will require considerable effort and sacrifice. There are those who are inclined to support only economic assistance. There are others who are inclined to support only military assistance. There is, however, no realistic alternative to the balanced approach in the proposals before you.

The crisis is acute. Our neighbors in Central America urgently need the help of the only country capable of making the difference.

We have a responsibility. U.S. moral and strategic interests are both engaged -- in an area in which we have historically been involved. Doing nothing, or doing too little, are not responsible alternatives.

Our initiative is based on sound analysis. It is rooted in the consensus judgment that the area's problems have both indigenous and extra-regional causes.

Our goals are realistic. The region's most progressive, democratic forces strongly believe that we can work together successfully to strengthen the moderate center in Central America. These same people are convinced that our active participation will serve both to defeat communism and to bolster respect for human freedom in this critical part of our hemisphere.

The approach is right. There is broad agreement that effective action must include a mix of developmental, political, diplomatic and security elements and that these elements must be pursued simultaneously, equitably and humanely. There is no such thing as a wholly "economic," a wholly "political" or a wholly "military" solution to Central America's problems. Economies must be protected as well as developed. Governments must be worth defending. Home-grown poverty and Cuban-directed guerrilla warfare are allies of each other; our policies must take aim at both.

The approach proposed by the Bipartisan Commission and adopted by the President does call for greater U.S. involvement in the region, but it is a constructive involvement that will eventually enable Central Americans to stand on their own and live at peace with one another. This kind of involvement now will eliminate the need for greater involvement later.

What the Bipartisan Commission and the President propose is not impossible. It is a realistic and humane response to a real crisis in a particularly troubled setting. We have the

resources to do it. The people in Central America want us to do it. Our enemies -- extremists of the left and the right -- will be delighted if we hesitate.

I hope that your consideration of the Bill will be infused by the Bipartisan Commission's unanimous conclusion, a conclusion that guided its preparation and which is worth quoting in full:

"The Commission has concluded that the security interests of the United States are importantly engaged in Central America; that these interests require a significantly larger program of military assistance, as well as greatly expanded support for economic growth and social reform; that there must be an end to the massive violation of human rights if security is to be achieved in Central America; and that external support of the insurgency must be neutralized for the same purpose."

Thank you.

February 17, 1984

Issues Papers

ISSUES PAPERS ON THE IMPLEMENTATION OF THE
NBCCA RECOMMENDATIONS

-- Talking Points on:

1. The Bipartisan Consensus: The Only Way
2. U.S. National Interests at Stake
3. Objectives of the Plan
4. El Salvador: Conditionality and Periodic Reporting
5. Economic Prosperity
6. Need for Increased Security Assistance
7. Strengthening Judicial System and Amending Section 660
8. Human Rights
9. Agrarian Reform
10. Human Development
11. Humanitarian Relief
12. Nicaragua's Armed Opposition
13. Fear of Greater U.S. Involvement
14. Capital Flight
15. Absorptive Capacity
16. Central American Development Organization
17. Significance to U.S. Private Sector

1. THE BIPARTISAN CONSENSUS: THE ONLY WAY

Lasting solutions to the crisis in Central America must come about by a sustained bipartisan approach, built on a broad consensus.

NBCCA QUOTE: "The people of Central America are neither Republicans nor Democrats. The crisis is nonpartisan, and it calls for a nonpartisan response. As a practical political matter, the best way to a nonpartisan policy is by a bipartisan route." The Commission added, "We have approached our deliberations in a nonpartisan spirit and in a bipartisan way, and we believe that the nation can and must do the same."

Talking Points:

- The late Senator Jackson, by proposing creation of the Commission, clearly desired that Central America not become a divisive issue in the U.S.
- As the late Senator Jackson stated, "The manner in which we meet the challenges of Central America affects profoundly our abilities to safeguard world peace and the future of individual liberty." Certainly, these are not partisan issues.
- Because of the critical nature of the problems in the region, and the Commission members direct exposure to them, they strongly recommend a non-partisan policy via the bipartisan route.
- The U.S. needs to speak with one voice.
- Predictability must be built into our policy toward Central America.
- This will aid the Central Americans in constructing and reviewing their own agendas on these issues of mutual concern.
- We must act now in a unified way to prevent our adversaries on the extremes of the left and right from perceiving a lack of U.S. commitment and resolve.

2. U.S. INTERESTS IN CENTRAL AMERICA

In today's Central America, U.S. moral and strategic interests coincide.

NBCCA QUOTE "...indigenous reform, even indigenous revolution, is not of a security threat to the United States. But the intrusion of aggressive outside powers exploiting local grievances to expand their own political influence and military control is a serious threat...we have a humanitarian interest in alleviating misery and helping the people of Central America meet their social and economic needs...we have a national interest in strengthening democratic institutions wherever in the hemisphere they are weak."

Talking Points:

- Central America is our neighbor. We have historically been deeply involved there. It is beset by acute crisis and urgently needs the economic and military assistance from the only country capable of providing it.
- As Commission member Robert Strauss wrote in the Washington Post: "I do not believe that anyone can responsibly advocate that this nation do nothing, that it turn its back on the repression and poverty that breed totalitarianism of the left and the right."
- The region's most enlightened, democratic forces strongly believe that we and they have a shared interest in strengthening the moderate center in each of these countries of Central America.
- Our objectives are positive and progressive. As Secretary Shultz said six months ago to the SFRC, "what we seek is a Central America more like Costa Rica than Cuba." The evidence is clear that, unless we act, the result will be the other way around, quite possibly including Costa Rica.
- What we found in Grenada provides powerful new evidence of the pattern of Soviet and Cuban advantage-taking to gain strategic footholds. The same thing is happening in Central America. Nicaragua's neighbors are concerned, and we should be too.
- The U.S. has a further interest in preventing continued destabilization in Central America: The resulting turmoil, anarchy and large-scale emigration could have a direct harmful impact on our own country.

3. OBJECTIVES OF THE INITIATIVE

The objectives of the legislation are to implement democracy, improve living conditions and restore peace in Central America.

NBCAA QUOTE: "In establishing the National Bipartisan Commission on Central America, you asked its advice on what would be appropriate elements of a 'a long-term United States policy that will best respond to the challenges of social, economic, and democratic development in the region, and to internal and external threats to its security and stability.' The analyses and recommendations in this report seek to respond to that request."

Talking Points:

- The Commission recognizes that democracy is essential to lasting solution, is what the Central Americans want, and is consistent with our own strategic interests and historic ideals.
- Commission's Principles and Implementing Legislation:
 - o Democratic self-determination will be advanced by:
 - Special funding for the National Endowment for Democracy, earmarked for Central America, as well as other assistance to democratic institutions.
 - Assistance for Legal Reform which will permit up to \$20 million in ESF in any fiscal year to strengthen the administration of justice in Central America
 - Conditionality for military assistance, requiring "progress reports" to Congress every six months on Salvadoran efforts to achieve democracy, development and security, but without a "certification" requirement.
 - o Economic and social development will be advanced by:
 - providing funds for development assistance, ESF and for other programs such as USIA and Peace Corps, housing guarantees, Trade Credit Insurance, and Migration and Refugee Affairs.

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- authorization of \$400 million in supplemental economic assistance for FY 1984.
- authorizing multi-year funding (1985-89) of \$6 billion in appropriated funds and \$2 billion in insurance and guaranty authority.

°FY 1985 program of \$1.1 billion in direct economic assistance and \$600 million in guarantees includes:

- providing \$540 million to finance critical imports by the private sector.
- A \$185 million program in labor intensive infrastructure and housing projects funded by development assistance, local currency generated by our balance of payments support and guarantees.
- More than \$100 million for education (including literacy and teacher corps), training and scholarships
- \$210 million for development of agriculture, the backbone of the economies of Central American countries, funded with local currency generations from the balance of payments program.
- \$120 million in PL480 agricultural commodities, with local currency generations devoted to priority programs in, for example, education and health sectors.
- \$140 million to revitalize important regional institutions such as the Central American Common Market and the Central American Bank for Economic Integration.

°Security will be advanced by:

- conditioning military assistance to El Salvador in manner which fosters political, social and economic progress, in accordance with recommendations of NBCCA.
- An authorization of supplemental military assistance of \$259 million for FY 1984, of which \$179 million is for El Salvador to enable it to break the military stalemate.
- the authorization of \$256 million in FY 1985, of which \$132.5 million is for El Salvador and \$62.5 million for Honduras.

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◦Need for Comprehensive program:

- In line with the Bipartisan Commission's recommendations, the President has proposed a comprehensive program to support democratic, economic and human rights development, and bring peace to this troubled region.

4. EL SALVADOR - CONDITIONALITY AND PERIODIC REPORTING

NBCCA QUOTE: "With respect to El Salvador, military aid should, through legislation requiring periodic reports, be made contingent upon demonstrated progress toward free elections; freedom of association; the establishment of the rule of law and an effective judicial system; and the termination of the activities of the so-called death squads, as well as vigorous action against those guilty of crimes and the prosecution to the extent possible of past offenders. These conditions should be seriously enforced."

Talking Points:

- There is no disagreement among Congress, the Commission and the Administration over the need for continued human rights reform in El Salvador, and on the need that U.S. military assistance to El Salvador be conditioned on such reform.
- At the same time, the objective of human rights progress and the application of conditions to achieve that objective cannot be implemented through the blunt instrument of a legislative formula. Genuine progress requires that the President be able to gain the cooperation of democratic forces in El Salvador who are trying to carry out political, economic and social reforms.
- On conditionality for military assistance to El Salvador, the Administration will provide "progress reports" to Congress every six months on Salvadoran efforts to achieve democracy, development and security.
- Military aid will be provided in a manner to foster and maintain human rights development.
- The Administration and the Congress must work closely together to assure effective congressional oversight of Salvadoran and U.S. efforts to achieve human rights progress while preserving the President's capability to pursue an effective foreign policy.

5. ECONOMIC PROSPERITY

In order to effectively address the complex and interrelated economic, social, political and security problems of Central America, the United States needs to make a long-term commitment to provide more resources.

NBCCA QUOTE: "...present prospects for Central America are unacceptable and the present effort is inadequate. We propose specific programs to reinvigorate critical elements within the Central American economies in conjunction with social and political change and progress. We urge a five-year commitment by the United States to a substantially increased level of economic assistance."

Talking Points:

- Large scale economic aid alone does not guarantee progress, but we must help reverse the sharp declines in GDP, per capita consumption, and employment.
- Economic deterioration has become a source of social and political unrest.
- Absorptive capacity is a manageable problem; large new programs will be carefully phased in, financing of essential imports to restore private sector activity will be a major program especially in the early stabilization period, and programs to upgrade social infrastructure will require major sums but with minimal absorptive capacity implications.
- Flexibility to obligate funds beyond the end of the fiscal year in which they are appropriated is essential so that funds can be withheld temporarily from or transferred among cooperating countries in response to their performance.
- Establishment and maintenance of a strong link between assistance and performance will enable us to strengthen the commitment of Central American governments to a truly comprehensive approach to economic development.

6. NEED FOR INCREASED MILITARY ASSISTANCE

The United States has not provided enough military assistance to El Salvador to support the methods of counter-insurgency we have urged. The Salvadoran government's forces must be significantly and quickly strengthened if the National Campaign Plan is to succeed.

NBCCA QUOTE: "The Commission recommends that the United States provide to El Salvador--subject to the conditions we specify later in this chapter--significantly increased levels of military aid as quickly as possible, so that the Salvadoran authorities can act on the assurance that needed aid will be forthcoming."

Talking Points:

- The war is at a stalemate--a condition that in the long term favors the guerrillas.
- The guerrillas have had a few spectacular successes using hit and run tactics, and they will likely step up attacks in an effort to jeopardize the March 25 Presidential elections. But the recent assignment of younger, more aggressive commanders to key Army units is beginning to pay off. With additional military aid, the Salvadoran Armed Forces are capable of restoring peace.
- Precise amounts and types of increased security assistance were not recommended. The Commission noted, however, Department of Defense estimates that it would take approximately \$400 million in U.S. assistance to break the stalemate and allow the National Campaign Plan to be carried out.
- The proposed level of military assistance for El Salvador for FY 1984 and 1985 is in accord with the DOD estimate.
- With respect to Honduras, the Commission noted a need for additional training and equipment and recommended that the Administration submit an appropriate program in that regard.
- The Commission noted that under suitable conditions, assistance to Guatemala would be advisable. A modest FY 1985 program is proposed.
- It is also necessary to increase military assistance for Costa Rica, Panama, and the Regional Military Training Center in Honduras, and to continue our small program in Belize.

7. STRENGTHENING JUDICIAL SYSTEMS AND AMENDING
SECTION 660 OF FAA

In the absence of strong legal institutions, political, security and economic crises are magnified. The long-term vitality of these crucial legal institutions could benefit substantially from U.S. assistance to indigenous efforts to strengthen them and advance the rule of law.

NBCCA QUOTE: "We recommend that the United States help strengthen Central American judicial systems. We...suggest that Congress examine...whether Section 660 of the Foreign Assistance Act should be amended so as to permit--under carefully defined conditions--the allocation of funds to the training and support of law enforcement agencies in Central America."

Talking Points:

- The Administration has been working for almost a year on a variety of regional activities intended to support efforts by Central American countries to improve the functioning of their legal systems.
- The program is designed to address immediate needs in El Salvador, but at the same time to identify follow-on projects in all the regional democracies.
- The Administration is currently implementing the limited program of assistance to El Salvador which was authorized in the FY 1984 CR. This program permits assistance to improve investigative capabilities without regard to the current prohibition against assistance to law enforcement agencies, Section 660 of the Foreign Assistance Act. This prohibition continues to inhibit assistance to other Central American countries and support for a program of regional cooperation to strengthen the administration of justice.
- The proposed legislation will expressly authorize assistance for the purposes identified by the Commission as well as for other related legal reform purposes--notwithstanding Section 660.

8. HUMAN RIGHTS

United States support for improvements in respect for human rights and for increased security in Central America are mutually supportive.

NBCCA QUOTE: "While the objectives of security and human rights are sometimes counterpoised against each other, they are actually closely related...were military aid to be cut off (in El Salvador), it would open the way for the triumph of the guerrillas...such a development would be unacceptable from the standpoint of both human rights and security."

Talking Points:

- In supporting respect for human rights, including the development of democratic institutions, the United States is being true to its own historical tradition, beginning with the Bill of Rights.
- Compassion and decency require us to exercise the leverage we have on behalf of improved human rights.
- A government which fails to act to end human rights abuses cannot, over the long run, hope to maintain its people's allegiance.
- History teaches us that democracy is the best guarantee of respect for human rights.
- The cause of human rights will not be promoted by cutting off military aid and thereby permitting Marxist-Leninists to win and install a Cuban-style dictatorship, which has demonstrated a wanton disregard to fundamental civil liberties and human rights.
- History has clearly shown that some authoritarian governments that violated their people's human rights have given way to democratic governments that respect human rights (Venezuela, the Dominican Republic and Argentina). However, in countries where the communists have once achieved power, the only recourse for the oppressed population has been rebellion (East Germany, Czechoslovakia, Hungary and Poland) or flight from communism to freedom (many communist countries, including particularly Cuba).

9. AGRARIAN REFORM

Agriculture is the backbone of the economies of Central America; however, highly concentrated land tenure patterns and absentee landlords have led to social tensions and have mitigated against efficient utilization of productive lands.

NBCCA QUOTE: "In programs of land reform, ways should be found to ensure that the redistribution of land provides the new owners with a valid title, that governments promptly allocate resources as they become available to ensure that former owners are effectively compensated, and that...the system enhances incentives to expand...total agricultural output."

Talking Points:

- Land reform, properly designed and implemented, can contribute to more intensive cultivation, and result in greater productivity and employment. The goal is to aid in bringing about a rural middle-class.
- Land reform is an accomplished fact or well advanced in several Central American countries.
- The government of El Salvador has made significant progress in implementing land reforms promised by the reformed junta which took power in 1979; to date some 25 percent of the rural poor have benefitted (over 550,000 Salvadorans).
- The continuing commitment of Salvadorans to agrarian reform was amply demonstrated by the protection afforded the reforms in the new constitution.
- While two Administrations have backed the Government of El Salvador's land reform efforts, section 620 (g) of the Foreign Assistance Act has precluded use of U.S. assistance to compensate previous landowners for property affected by agrarian reforms. The proposed legislation recognizes that exceptions to this prohibition may be required in the U.S. national interest.
- We concur with the NBCCA recommendations on agrarian reform (in El Salvador and in other Central American countries), and we will continue and, as appropriate increase our aid programs in ways tailored to the prevailing circumstances in each country.

10. HUMAN DEVELOPMENT

A cornerstone of our assistance strategy must be to alleviate the effects of poverty by accelerated programs of human development.

NBCCA QUOTE: "Widespread hunger and malnutrition, illiteracy, poor education and training opportunities, poor health conditions, and inadequate housing are unstable foundations on which to encourage the growth of visible democratic institutions. The burden of action...in these areas...lies primarily on the Central Americans themselves. However, the United States can provide some of the resources which the Central Americans need to make their programs work..."

Talking Points:

- The proposed legislation will permit the needed emphasis to be given to addressing the problems of hunger and malnutrition by increases in food aid (\$120 million in PL480 agricultural commodities)--being careful to avoid production disincentives--and by major increases in our efforts to accelerate agricultural development.
- AID, the Peace Corps, and USIA will jointly develop and implement a large balanced education program--which could include technical assistance, teacher and literacy corps, textbook development and distribution, and scholarship programs.
- The legislation proposes a \$185 million program for labor intensive infrastructure and housing projects, funded by our development assistance and local currency generated by balance of payments support and guarantees.
- For improved health care, the legislation proposes a concentration on health manpower training and preventive medicine; the countries in Central America have spent too much on secondary and tertiary health care facilities (i.e. large, expensive hospitals) relative to less sophisticated primary health care which reaches larger numbers of people.
- Urban housing conditions and urban public services such as basic water and sanitation, electricity, public transportation, etc. are critical; our efforts could help Central American governments solve the most pressing problems and, at the same time, help resolve the overwhelming problems of unemployment and under-employment.

11. HUMANITARIAN RELIEF

Relief efforts directed at refugees and displaced persons are not only our moral responsibility, they provide desperately needed immediate assistance and have a positive influence on the political, social and economic future of these countries.

NBCCA QUOTE: "The tragedy of the more than one million displaced persons in Central American--driven from their homes by violence and fear of violence--is well known...hundreds of thousands remain in El Salvador and Guatemala living under the most miserable conditions."

Talking Points:

- The Central American nations cannot provide adequate care and relief for refugees and displaced persons.
- The socio-economic welfare of Central America is crucial to well-being in the U.S.
- The USG has an on-going \$10.5 million Health and Jobs for Displaced Persons Project in El Salvador, which it plans to continue and expand. We also support the relief efforts of international and private voluntary organizations.
- There are, however, refugees and displaced persons whose needs are not currently met by outside assistance.

12. U.S. Support for Nicaragua Armed Opposition

Growing pressure on the GRN, including that from the armed Nicaraguan opposition, has softened GRN intransigence and has begun to move it toward a more accommodating stance both externally and toward the domestic opposition.

NBCCA QUOTE: "the majority of the members of the Commission, in their respective individual judgments, believe that the efforts of the Nicaraguan insurgents represent one of the incentives working in favor of a negotiated settlement and that the future role of the United States in those efforts must therefore be considered in the context of the negotiating process. The Commission has not, however, attempted to come to a collective judgment on whether, and how, the United States should provide support for these insurgent forces."

Note: Two Commission members filed separate opinions that the U.S. should end covert aid to the Nicaragua opposition.

Talking Points:

- The Commission's majority view on the need for continued pressure on the GRN is correct.
- The Administration has accepted, in the words of the Commission, that it would be unwise, "to dismantle existing incentives and pressures on the Managua regime except in conjunction with demonstrable progress on the negotiating front."
- The GRN has issued some conciliatory signals but has yet to translate these into actions. The Sandinistas know what our concerns are, and we are paying close attention to what they do. If they act positively, we will respond appropriately.
- We have discussed with Nicaragua four areas of concern to the US: implementation of the Sandinistas' democratic commitments to OAS; an end to Nicaragua's support for subversion in neighboring states; reduction of Nicaragua's military apparatus and restoration of a regional military equilibrium; and removal of Soviet/Cuban personnel and an end to their military/security involvement in Nicaragua.

13. FEAR OF GREATER U.S. INVOLVEMENT

Behind our approach to the Central America crisis is the notion that we should spend wisely today to prevent having to spend much more heavily--both in dollars and lives--to protect US interests at some future date.

NBCCA QUOTE: "Central America's crisis is our crisis...to the extent that a further Marxist-Leninist advance in Central America leading to progressive deterioration and further projection of Soviet and Cuban power in the region required us to defend against security threats near our borders, we would face a difficult choice between unpalatable alternatives. We would either have to assume a permanently increased defense burden, or see our capacity to defend distant trouble-spots reduced, and as a result have to reduce important commitments elsewhere in the world."

Talking Points:

- The U.S. has a responsibility to the region and a constructive role to play.
- The NBCCA has recommended a formula for protecting important U.S. interests without committing U.S. forces to fight in Central America--a formula we strongly endorse.
- This formula does call for greater U.S. involvement in the region, but it is constructive involvement that will eventually enable Central Americans to stand on their own and live at peace with one another. Our programs will provide economic assistance to help restore growth, with emphasis on the private sector; humanitarian aid; incentives to carry out democratic reforms; and military assistance to provide a shield for progress in the other areas.
- The amount proposed for assistance is not small, but neither are Central America's problems or U.S. stakes in the region. It will be a sound investment.
- The President has repeatedly stated that the U.S. has no plans to send U.S. combat troops to El Salvador.

14. CAPITAL FLIGHT

Concerns about capital flight are legitimate; but there is a general lack of good information on and understanding of the problem.

NBCCA "Private sector confidence, both within and outside
QUOTE Central America, has been shaken;...capital flight
 has been substantial..."

Talking Points:

-- Capital flight will not be a problem if there is confidence in political stability and there are opportunities for profitable investment inside the region.

-- Demonstration by the U.S. of a long-term commitment, the provision of adequate levels of economic and military assistance, and the adoption by Central American governments of appropriate economic, political, and social policies/reforms will eliminate the causes of capital flight and lead to capital reflows.

-- What is reported as capital flight often includes flows which would occur regardless of the political situation. For example, high foreign interest rates or the likelihood of a devaluation at home will cause short-term capital to move abroad; but the adoption of appropriate economic policy measures will reverse these income-motivated and speculative flows.

-- Evidence, statistical and anecdotal, indicates that capital flight was a serious problem for 3-4 years beginning about 1979 but that recently outflows have been greatly reduced. Wealthy Central Americans who were most pessimistic about the prospects for political stability have already made their capital transfers abroad, and the problem was, to a considerable degree, a one-time event.

-- The Central Banks of the region realize the seriousness of the problem and are working, successfully, to prevent capital flight. Our A.I.D. Missions also are providing useful advice and technical assistance to help Central American monetary authorities meet the challenge.

-- Our money is not being wasted or winding up in Miami bank accounts. As capital flight was curtailed, the economic deterioration in El Salvador was gradually reduced and was halted in 1983. Our assistance almost certainly would not have permitted stabilization (though at an intolerably low level) if capital flight had still been a major problem.

15. ABSORPTIVE CAPACITY

Absorptive capacity is a challenge which can be managed with close attention.

NBCCA QUOTE "Such an increase (of economic assistance), if complemented by continued improvements in the economic policy programs of these countries..., would help stabilize current economic conditions."

Talking Points:

-- The NBCCA recommendation of \$8.4 billion over 5 years would involve annual assistance of only about 5% of the Gross Domestic Product of the region -- a lower percentage than aid previously made available to some other parts of the world, including to success stories like South Korea and Taiwan.

-- The region's shortfall in export earnings from coffee and sugar due to lower prices, plus higher costs for imported oil amount to about \$1.5 billion per year -- the same general magnitude as the proposed assistance.

-- The need for external assistance is enormous. Physical infrastructure is undeveloped, health and education systems need expansion, and investment in productive capacity is essential to employ the region's growing labor force.

-- Considerable excess capacity could quickly and easily be brought back into play -- private firms need only working capital and imported inputs; and in the public sector, high priority investment programs that have been suspended or cut back because of austerity programs lack only financial support.

-- Policy reform will ensure effective use of our funds; we will avoid subsidizing inefficiency and will strive to create opportunities and incentives for private sector investment.

-- In the near term, the bulk of our resources emphasize private-sector activities, not expansion of government bureaucracies.

-- In the longer term, we will be providing to governments the institution-building help, training, and technical assistance that will allow them to carry out larger-scale programs more efficiently.

16. CENTRAL AMERICAN DEVELOPMENT ORGANIZATION

Creation of the Central American Development Organization (CADO) would give multilateral form and substance to economic development efforts.

NBCCA QUOTE: (Summary) CADO would assess the progress made by each Central American country toward economic, political, and social objectives as well as make recommendations on the allocation of economic resources. Participation should turn on acceptance and continued progress toward the protection of personal and economic liberties, political pluralism, a commitment to preserve peace, and sound growth policies. U. S. should channel one-quarter of its economic assistance through CADO.

Talking Points:

- Legislative proposal calls for the President to enter into negotiations with the Central American countries in order to establish a CADO, and sets forth governing principles:
- Participation would be open to the U. S., other donors, and those Central American countries that commit themselves to, among other things, maintaining or making progress toward human rights development, building democracy, and encouraging economic growth through policy reforms.
- CADO would include representatives from both the public and private sectors, including from labor and business communities, and be supported by small professional staff.
- CADO will make recommendations on political, economic, and social development objectives, mobilization of resources and external resource needs, and economic policies and structures. CADO will evaluate country performance and progress in meeting objectives.
- While ultimate control of aid funds will remain with Congress and the President, disbursement of 25% of economic assistance funds authorized under this Act and allocated directly for each Central American country would be deferred until U. S. and CADO have both approved.
- Administrator of USAID will be Chairman of CADO. U. S. participation in CADO to be fully integrated with U. S. foreign policy.

17. SIGNIFICANCE TO U.S. BUSINESS

Talking Points:

- Central America has traditionally enjoyed close commercial ties with the United States. In the aggregate, over 50 percent of Central America's imports of goods and services have been of U.S. origin. Business, labor and farmers have profited.
- Until 1979, the economies of the countries of Central America grew at an aggregate annual rate of 5.3 percent. Per capita income doubled between 1959 and 1979, and purchasing patterns reflected the improvement.
- Since 1979, the fighting, the global recession and high interest rates markedly reduced per capita income: 35 percent in El Salvador, 23 percent in Costa Rica, 14 percent in Guatemala and 12 percent in Honduras.
- The National Bipartisan Commission on Central America, on which both political parties and labor and management were represented, recommended substantially increased economic assistance to Central America. President Reagan accepted these recommendations and, on February 17, sent implementing legislation to Congress. The proposed legislation declares "Increased participation and promotion of the private sector ... in development" to be a guiding principle.
- The proposed legislation requests \$8.3 billion (\$6.3 billion in appropriated funds and \$2 billion in insurance and guarantees) over a five year period (FY 84-89) to the six Central American countries and Panama, a modest amount when compared with the \$4 billion that Cuba alone receives each year from the Soviet Union.
- Highlights of the economic assistance are:
 - The Trade Credit Insurance Program would underwrite some \$300 million in revolving short-term lending in FY-84 and \$500 million in FY-85 for transactions between the U.S. and Central American private sectors.
 - Economic Support Funds in the amount of \$427 million in supplemental funds in FY-84 and \$541 million in FY-85 for balance-of-payments support.
 - \$210 million in FY-85 in food support through the Food and Peace and the Commodity Credit Corporation.
 - The legislation urges expanded coverage of U.S. investment in Central America by the Overseas Private Investment Corporation.

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- The United States, in conjunction with the IMF, will condition its assistance on economic reforms by the recipient governments to improve the investment climate by creating more open, market-oriented economic systems, and to reduce regulation and administrative paperwork and to encourage agricultural development. These opportunities are further enhanced by the Caribbean Basin Initiative trade provisions, which entered into force on January 1, 1984.
- The U.S. Government is exploring the creation of a privately owned venture capital company for Central America.
- The proposed legislation provides for private-sector participation in the Central American Development Organization (CADO), which will review development policies and make recommendations. CADO concurrence will be required for the disbursement of 25% of U.S. aid in the region. Thus, business, together with labor and government, will have a major direct voice in the expenditure of our aid funds in Central America.
- Military assistance is proposed for FY-84 and FY-85 to break the stalemate in El Salvador and to provide a better security shield to the Central American democracies.

For U.S. business, the results of restoration of peace and our economic assistance will be:

- The balance of payments assistance will continue Central American imports of essential U.S. goods.
- The development assistance will finance capital projects (transportation facilities, port improvements, communications), and thereby provide opportunities for U.S. producers of construction machinery and supplies, transportation and communications equipment and engineering design and related services.
- As per capita income in Central America returns to its earlier upward trend line, the expanding market will provide expanded opportunities for U.S. producers and exporters of both consumer and capital goods, as well as investment opportunities.
- Restoration of a peaceful political environment, plus the vocational and professional education benefits provided by the Central American Initiative Act, will expand the pool of trained workers in Central America. U.S. firms would find the investment incentives under the Caribbean Basin Recovery Act (which is separate legislation) even more attractive.

IMPLEMENTATION OF BIPARTISAN COMMISSION RECOMMENDATIONS

<u>Recommendation</u>	<u>How Implemented</u>	<u>Proposed Funding^{1/}</u> <u>(\$ U.S. Millions)</u>		
		<u>FY 84</u>	<u>FY 85</u>	<u>FY 86-89</u>
1. Organize meeting of U.S. & Central American leaders	Administration will propose such a meeting	Neg.	-	-
2. Increase private sector involvement	Seek to establish emergency action committees in each country, expanded EXIM & OPIC programs, facilitate use of CBI (Secs. 201a, 209)	-	4.0	-
3. Establish USG role in renegotiation of official debt	Offer, if appropriate, advice/aid regarding re-scheduling of official debt within established Paris Club principles (no legislation required)	N/A	N/A	N/A
4. Encourage re-negotiation of private debt	Encourage banks to re-schedule commercial debt on best terms possible in context of IMF adjustment program where appropriate (no legislation required)	-	-	-
5. Increase economic aid in FY 1984	Supplemental request to Congress (Secs. 202a, 203a, 204a, 205a)	400.0	-	-
6. More emphasis on housing and infrastructure	New and expanded housing and infrastructure projects funded by DA, counterpart, guarantees (Secs. 201e, 207)	50.0	145.0	520.0
	GUARANTEES	-	40.0	160.0
7. Provide trade credit guarantees	Implement Trade Credit Insurance Program, expanded EXIM activities, greater use of counterpart funds for private sector credit (Section 209)	-	60.0	40.0
	GUARANTEES	-	450.0	800.0

/ Totals overstate actual funding requirements due to 1) overlapping programs and 2) use of local currency generations of balance of payments assistance for development projects.

	<u>Recommendation</u>	<u>How Implemented</u>	<u>Proposed Funding</u> (\$ U.S. millions)		
			<u>FY 84</u>	<u>FY 85</u>	<u>FY 86-8</u>
8.	Revitalize Central American Common Market (CACM)	Provide emergency credits to CACM to revitalize regional trade (Secs. 201f, 203)	-	95.0	230.0
9.	U.S. should join CABEI	U.S. to strengthen bank by providing higher levels of financial and technical assistance; can be done without formal U.S. membership (Section 202)	-	45.0	50.0
10.	Should be major increase in aid to Central America by all donors	Participate in IDB-sponsored consultative group for Central America; urge greater aid by other donors (no legislation required)	-	-	-
11.	Authorize \$8 billion in U.S. aid and guarantees for five years, FY 85-89	Legislation requests authorization for appropriations of \$5.92 billion and \$2 billion in guarantee authority through 1989 (Secs. 202, 203, 204, 205, 206, 207, 209, 212)	-	1120.0	4800.0
		GUARANTEES	-	600.0	1400.0
12.	Appropriate funds on multi-year basis	Bill asks for authorization of full amount. Appropriations would remain available until spent (Secs. 202b, 203c, 204c, 205c, 206b, 212)	-	-	-
13.	Require host government economic policy reform	AID to intensify policy dialogue with recipients; condition aid on reforms, IMF programs; support tax collection improvements; support private sector (Secs. 101, 201)	-	4.0	4.0
14.	Help create Central American Development Organization	Consult with Central Americans and others on establishment of CADO; CADO to set goals and targets for development, recommend performance criteria, measure performance, and influence level and structure of U.S. bilateral assistance (Section 211)	-	1.0	4.0

<u>Recommendation</u>	<u>How Implemented</u>	<u>Proposed Funding^{1/}</u> <u>(\$ U.S. millions)</u>		
		<u>FY 84</u>	<u>FY 85</u>	<u>FY 86-89</u>
5. Use economic aid to promote democracy	AID and USIA will step up leadership development, visitor programs, exchanges, bi-national centers, other training in democratic practices (Secs. 101, 203, 205)	5.0	11.0	60.0
6. Help Central Americans get duty-free trade with other countries	Major diplomatic effort to urge others to improve trade treatment (no legislation required)	-	-	-
7. Review U.S. Non-Tariff Barriers	Use existing flexibility in international agreements and domestic laws to give best possible treatment to Central American imports (no legislation required)	N/A	N/A	N/A
8. Support export promotion efforts	Provision of credit and technical assistance to private sector, investment attraction programs, CBI implementation (Secs. 201a, 202, 203, 209)	5.0	50.0	629.0
9. Establish venture capital company	Support formation of private sector companies through technical assistance and loans (Secs. 201a, 203)	5.0	20.0	130.0
10. Expand OPIC insurance coverage	OPIC to make best efforts to support projects in region (Section 201h)			
	GUARANTEES	-	20.0	80.0
11. Promote small business programs	AID to develop new and expanded programs for capital, loans and credit, technical assistance to small and micro-business (Section 202, 212)	16.0	15.0	95.0
12. Boost agricultural development	AID support for land reform, increased credit to farmers, agri-business and agro-industry, cooperative development (Secs. 201b, 202, 203, 210)	35.0	209.8	1138.1

<u>Recommendation</u>	<u>How Implemented</u>	<u>Proposed Funding</u> (\$ U.S. millions)		
		<u>FY 84</u>	<u>FY 85</u>	<u>FY 86-</u>
23. Increase emergency food aid	Increased PL 480 food aid, continued CCC guarantees (Secs. 201a, 203) GUARANTEES	25.0 -	120.0 90.0	480.0 360.0
24. Fund programs for educational reform	AID will develop and provide services to upgrade primary and adult education. Priority on training for productive activities (Secs. 201c, 202, 204)	2.0	15.0	115.0
A. Establish Literacy Corps	Peace Corps will accelerate recruitment of Spanish-speaking Americans for literacy teaching, field expanded numbers of teacher aides, develop new educational technology (Section 204)	1.0	6.0	37.1
B. Establish Teachers Corps	Peace Corps will increase primary school and adult education programs, priority on recruitment of Spanish-speaking Americans (Section 204)	1.0	12.2	56.8
C. Expand technical and vocational education	Immediate development and expansion of AID programs to develop productive skills (Section 202)	1.0	10.0	55.0
D. Expand International Executive Service Corps activities	Expanded AID funding to permit more representatives and staff (Section 202)	-	1.0	8.0
E. Establish new scholarship programs	10,000 scholarships over five years for undergraduate, graduate and professional education, English-language and technical training (Secs. 202, 205)	10.0	49.0	231.0
F. Strengthen major Central American universities	AID to increase funding for university infrastructure and equipment modernization, upgrading of development-related curricula, and for teacher training (Section 202)	2.0	10.0	70.0

<u>Recommendation</u>	<u>How Implemented</u>	<u>Proposed Funding¹/</u> <u>(\$ U.S. millions)</u>		
		<u>FY 84</u>	<u>FY 85</u>	<u>FY 86-89</u>
G. Train more translators; translate, publish more books	USIA will expand its Spanish-language book translation and publication programs (Section 205)	-	6.0	28.0
H. Establish education programs in public administration	AID will develop U.S. and in-country training programs in public administration (Section 202)	-	4.0	20.0
I. Train health care workers	AID will provide technical assistance for health care education (Section 202)	(included in funding for Health)		
5. Expand health and nutrition programs	AID to expand technical assistance for health management and delivery systems, new programs in health economics, epidemiology, vector-borne and child-hood disease control, expanded health care financing (Secs. 201d, 202)	18.0	40.0	135.0
6. Continue AID population and family planning programs	AID will work with public and private sector (Secs. 201d, 202)	5.0	15.0	116.0
7. A. Strengthen Judicial Systems	Support for bilateral and regional programs to improve and make more humane administration of justice (Secs. 101, 203 208)	5.0	15.0	60.0
B. Impose sanctions against death squad members	Separate legislation under consideration making conspiracy in U.S. to murder elsewhere a crime; denial of visas and deportation to occur when appropriate and permitted by statute	N/A	N/A	N/A
8. Support refugee programs	Expanded humanitarian assistance and re-settlement programs in El Salvador and Guatemala, new programs in Honduras, Costa Rica and Belize (Secs. 201g, 202, 206)	14.0	30.0	124.0

<u>Recommendation</u>	<u>How Implemented</u>	<u>Proposed Funding¹</u> <u>(\$ U.S. millions)</u> <u>FY 84 FY 85 FY 86-</u>		
29. Give more military aid to El Salvador	For El Salvador, bill authorizes \$178.7 million in FY 84 supplemental and \$132.5 million in FY 85; others to receive \$80.35 million from FY 84 supplemental and \$123.4 million in FY 85 (Secs. 302, 303, 304)	259.05	255.9	N/A
30. Authorize multi-year funding of military aid to ensure predictability	Legislation would authorize military aid appropriations to be available until spent (Secs. 302c, 303b, 304b)	N/A	N/A	N/A
31. Military aid to El Salvador should be tied to periodic reports, progress toward free elections, end of death-squad activities, other political reforms	Bill proposes required report to Congress every six months on El Salvador's policies and progress toward meeting U.S. objectives, and directs President to use aid to foster political, economic and social reforms (Section 305)		N/A	N/A

Summary Sheet on the Report of the
National Bipartisan Commission on Central America

OUTLINE

The report, which is dedicated to Sen. Henry Jackson, consists of the following chapters:

1. Introduction and basic themes.
2. - Places crisis in larger hemispheric context.
3. - Provides historical perspective.
4. - Examines prospects for economic and political development; presents recommendations.
5. - Discusses social issues -- health and education particularly -- and makes recommendations.
6. - Explores security issues and recommends U.S. action.
7. - Looks at diplomatic aspects and offers recommendations on pursuing negotiated settlements.
8. - Conclusion.

-- On security and diplomatic issues, the report deals with El Salvador, Honduras, Nicaragua, Guatemala and Costa Rica. Panama and Belize are included for discussion of development programs.

MAJOR THEMES

-- The crisis in Central America is acute. Its roots are indigenous -- in poverty, injustice and closed political systems. But world economic recession and Cuban-Soviet-Nicaraguan intervention brought it to a head.

-- The crisis will not wait. It must be addressed at once and simultaneously in all its aspects. Ultimate resolutions depend on economic progress, social and political reform. But insurgencies must be checked if lasting progress is to be made on these fronts.

-- Indigenous reform, even indigenous revolution, is no threat to the U.S. But the intrusion of outside powers exploiting local grievances for political and strategic advantage is a serious threat. Objective of U.S. policy should

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be to reduce Central American conflicts to Central American dimensions.

-- United States has fundamental interests at stake: Soviet-Cuban success and resulting collapse of Central America would compel substantial increase in our security burden or redeployment of forces to detriment of vital interests elsewhere.

-- As a nation we have deep and historic interest in promotion and preservation of democracy. Report concludes that pluralistic societies are what Central Americans want and are essential to lasting solutions. In this case our strategic interests and our ideals coincide.

-- Central Americans desperately need our help and we have a moral obligation to provide it. The U.S. and other nations can make a difference. But in the end solutions will depend on the efforts of Central Americans themselves.

-- Although there is urgent need for action, no quick solutions can be expected. U.S. must make a long-term commitment and stick to a coherent policy.

-- That policy can and should be bipartisan. Commission found wide consensus on principles and objectives.

POLITICAL AND ECONOMIC DEVELOPMENT

-- Central American economies grew substantially during the 60's and early 70's. But income distribution was highly inequitable, except in Costa Rica and Panama.

-- Trend toward more pluralistic political systems in El Salvador, Guatemala and Nicaragua reversed in early 70's.

-- World recession and rising political violence had catastrophic effect on region's economies in late 70's, early 80's. All have declined dramatically. El Salvador's gross domestic product is off 25% since 1978.

-- Even with successful stabilization programs and restored political stability, per capita wealth in 1990 would only be three-quarters of what it was in 1980.

-- There must be substantial increase in outside assistance.

-- Commission believes economic development cannot be separated from political and social reform. Objective must be parallel development of pluralistic societies and strong economies with far more equitable distribution of wealth.

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-- We propose a program of U.S. assistance designed to promote economic growth, democratization and greater social equity.

--We encourage the greatest possible involvement of the US private sector in the stabilization effort. Recommend the formation of an emergency action committee of private sector personalities to provide advice on new private-public initiatives to spur growth and employment.

Recommendations: An Emergency Stabilization Program

--Leaders of U.S. and Central America should meet to initiate a comprehensive approach to economic development of the region and reinvigoration of the Central American Common Market.

-- A \$400 million supplemental in FY84 over and above the \$477 million now in the budget for the seven countries. There is urgent need to stabilize economies now going downhill very fast.

-- Focus this assistance on labor-intensive infrastructure projects and housing. Unemployment is a critical problem -- politically and economically.

-- Establish a program to provide U.S. Government guarantees for short-term trade credits. External credit has dried up. Without it economies cannot be reactivated.

-- Provide an emergency loan to the Central American Common Market to permit the reactivation of this vital organization. Lack of resources in the Market to settle trade accounts among the countries has stalled it.

-- U.S Government should take an active role in the efforts to resolve the external debt problems of Central America and should encourage the countries that have not done so to seek multilateral rescheduling.

-- Also encourage commercial banks to renegotiate at the lowest possible interest rates.

Recommendations: Medium and Long-Term

-- Commission estimates \$24 billion in net external exchange inflows needed to 1990 to foster a growth rate of 3 percent per capita, returning these countries to pre-recession levels of per capita wealth. About half -- \$12 billion -- is expected to come from international institutions, other donor countries and loans and investments from private sector sources.

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-- U.S. Government will have to provide as much as \$12 billion if these financing needs are to be met.

-- We propose in this context a program of \$8 billion over next five fiscal years (FY85-89) in USG assistance. This would be divided very roughly into about \$6 billion in appropriated funds and about \$2 billion in contingent liabilities covering guarantees, insurance and the like.

--Compared with current projections for FY85 - 89, these contributions would constitute an increase of about \$ 2.8 billion in appropriated funds and \$.7 billion in contingent liabilities over the five year period.

--Urge that Congress authorize multi-year funding of this program. Commission believes firm, long-term commitment is essential.

-- To give form and structure to the development effort suggest establishment of the Central American Development Organization (CADO). Perhaps 1/4 of U.S. aid could be channelled through CADO.

-- CADO would consist of the United States and those countries of the seven willing to commit themselves to internal democracy and reform. Continued membership would depend on demonstrated progress toward those goals. Adherence to regional security pact also required.

-- Nicaragua could participate by meeting these conditions.

-- CADO's principal body would be a Development Council with tripartite, ILO-style representation. Would assess program and progress toward economic growth, democratization, reform and preservation of human rights.

-- Other democracies would be invited to join.

Additional Recommendations

-- Expanded assistance from the US Government for democratic institutions and leadership training -- neighborhood groups, cooperatives, binational centers and visitor programs for leaders of labor unions, local governments and other organizations.

--Require a firm commitment by the Central Americans to economic policies, including reforms in tax systems, to encourage private enterprise and individual initiative, to create favorable investment climates, to curb corruption where it exists, and to spur balanced trade.

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-- Urge extension of duty-free trade to Central America by other major trading nations.

--Review non-tariff barriers to imports from Central America with a view toward using whatever flexibility that exists within the framework of multilateral agreements, to favor Central American products.

-- Establishment of the Central American Development Corporation -- a privately owned venture-capital company which could initially be financed by a loan from the US Government.

-- Recommend that the United States join the Central American Bank for Economic Integration.

-- Technical and financial support for export promotion and a US Government review of non-tariff barriers to Central American imports.

-- Expanded availability of insurance guarantees for new investments from the U.S. Government's Overseas Private Investment Corporation.

-- Increased focus in assistance programs on small business and accelerated agricultural development -- particularly in production of food for domestic consumption.

HEALTH AND EDUCATION

-- Democracy and prosperity in the region require accelerated human development. Hunger, disease and illiteracy sap a people's vitality and impede the growth of viable democratic institutions.

--Literacy rates are unacceptably low in several counties (e.g., Guatemala 45%, El Salvador 63%, Honduras 60%) handicapping education efforts seriously.

--Widespread malnutrition also handicaps education by sending physically and mentally underdeveloped children to school.

-- Goals should include a reduction of malnutrition, elimination of illiteracy, expanded education, health, and housing opportunities.

-- Initial efforts must be to increase food assistance to Central America through the PL 480 programs.

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-- Commission calls for formation, under direction of the Peace Corps, of a Literacy Corps and a Central American Teachers Corps.

-- To meet needs in higher education, U.S. government scholarships should be raised to approximately 10,000 over 4-6 years, a level comparable to Cuban and Soviet Union efforts.

-- Educational reform can also be encouraged in the areas of technical and vocational education, through the expansion of the International Executive Service Corps, and through closer cooperation with Central American universities to improve the quality of education.

-- Judicial systems in Central America can be strengthened by providing resources for training judges, judicial staff, and public prosecutors.

-- Continuation and expansion of existing programs for disease control and eradication, as well as immunization and oral rehydration.

-- Training of primary health workers, especially nurses, should be expanded and the means developed to integrate private and public financing of health services.

-- Assistance programs should target the area's severe housing shortage.

-- Training of public administrators required to improve public service.

-- US Government should provide more resources to meet critical problem of refugees and displaced persons -- more than one million of them need help.

SECURITY ISSUES

-- In El Salvador there are two separate conflicts: (1) between those seeking democratic reform and those seeking to retain their privileges; (2) between Marxist-Leninist guerrillas and those who oppose Marxism-Leninism.

-- In discussing the latter we identify three general propositions about such guerrilla movements:

(1) They depend on external support. Without it they are unlikely to succeed.

(2) They develop their own momentum which reform alone cannot stop.

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(3)Victorious, they create totalitarian regimes, even though they have enlisted support of democratic elements in order to project democratic, reformist image.

-- External support comes from Soviet Union, Cuba and now Nicaragua. Cuba has developed into a leading military power through Soviet assistance. Since Sandinista victory, Soviets have come around to support Cuban strategy of armed road to power in Central America.

-- There are serious strategic implications for the United States in Soviet-Cuban support for armed insurgency in the region.

-- Triumph of hostile forces there could require us to devote large resources to defend our southern approaches.

--This could mean either substantially increased defense burden for the United States, or a redeployment of forces to the detriment of our interests elsewhere.

-- Threat to our shipping lanes in the Caribbean.

-- Increased violence and dislocation in the area from which we could not isolate ourselves.

-- Erosion of our power to influence events worldwide as we are perceived as unable to influence events close to home.

El Salvador

-- The war is stalemated, a condition to the ultimate advantage of the guerrillas.

-- U.S. military assistance is inadequate to permit modern, humane and successful counter-insurgency.

-- Commission recommends that U.S. provide significantly increased levels of military assistance for greater mobility, more training, higher force levels and more equipment.

-- Assistance is to be conditioned through legislation on terminating death squads, progress toward democracy and establishment of the rule of law.

-- In Guatemala, such assistance should only be provided if the same terms are met.

--Increased military assistance also needed for Honduras to build a credible deterrent and to meet renewed efforts at insurgency.

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-- Commission concludes that U.S. security interests are importantly engaged in Central America. Larger program of military assistance needed, as well as expanded support for economic growth and social reform.

-- Success will depend on an end to massive violations of human rights and the neutralization of external support for the insurgencies.

THE SEARCH FOR PEACE

-- A successful U.S. political strategy in Central America requires resources to promote economic growth, vigorous efforts to advance democracy and reform; other inducements and penalties.

-- General strategic objective of U.S. diplomacy in Central America should be to reduce the civil wars, national conflicts and military preparations to Central American dimension.

-- Specifically, we should seek to stop the war and killing in El Salvador. Create conditions under which Nicaragua becomes a peaceful and democratic member of the Central American community. And open the way for democratic development in all countries.

-- Commission calls for negotiations in El Salvador between guerrillas and the government to be elected in March to establish conditions for later legislative and municipal elections in which all could participate: electoral commission with FMLN-FDR representation, cease-fire and end to all violence; international observation of elections.

-- Adequate economic and military assistance from U.S. can help to achieve such a settlement.

-- Commission believes military stalemate works against rather than for a political settlement based on the popular will.

-- In Nicaragua, consolidation of a Marxist-Leninist regime would create a permanent security threat. Nicaragua's mainland location makes it a crucial steppingstone to promote armed insurgency in Central America. Cuban personnel (2,000 military advisers and 6,000 civilian officials), several hundred Soviet, East European, Libyan and PLO advisers, extensive arms deliveries (13,000 tons in 1983) add an external dimension to the threat posed by Nicaragua to its neighbors.

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-- What gives the current situation its special urgency is the external threat posed by the Sandinista regime in Nicaragua, supported by Cuban military strength, backed by Soviet weapons, guidance and diplomacy, and integrated into the Cuban network of intelligence and subversion.

-- Central American leaders believe pluralistic political orders are essential to long-term security.

-- An alternative would be an attempt at containment. But that would threaten militarization of the isthmus -- the creation of garrison states. Democracy would wither. And the U.S. could find itself as surrogate policeman.

-- Commission proposes comprehensive regional settlement based on:

- (1) Respect for sovereignty and non-intervention.
- (2) Verifiable commitments to non-aggression and an end to all attempts at subversion -- covert or overt.
- (3) Limitations on arms and sizes of armed forces. Prohibition of foreign forces, bases and advisers.
- (4) No military forces, bases or advisers of non-Central American countries would be permitted.
- (5) Commitment to internal pluralism and free elections in all countries.
- (6) Provision for verification of all agreements.
- (7) Establishment of an inter-government council to meet regularly to review compliance.
- (8) Adherence to the overall agreement would be required for membership in the Central American Development Organization.

-- U.S. would support the agreement and provide assistance; and would commit itself to respect results of elections within countries as long as principles of pluralism at home and restraint abroad observed.

-- Commission's proposal based on and amplifies 21 points of the Contadora Group.

-- Commission fully endorses Contadora efforts.

-- Finally, majority of Commission opposes dismantling existing incentives and pressures for the regime in Managua to negotiate seriously.

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-- As for Cuba, Commission sees little possibility of separating it from Soviet Union. But U.S. should be prepared to negotiate seriously if Cuba were to show itself prepared for genuine coexistence, dropping support for insurgency in Central America and revolutionary violence elsewhere in the world.

-- As for Soviet Union, establishment of Soviet military base in Nicaragua is not the major concern. Before that could have happened the crisis would have reached proportions not containable in Central American dimensions.

-- There is little promise in negotiating with the Soviet Union over Central America. Soviets would seek cast such negotiations in terms of sphere of influence, an unacceptable concept for the U.S.

STATEMENT BY CHAIRMAN OF PRESIDENT'S NATIONAL
BIPARTISAN COMMISSION ON CENTRAL AMERICA
TO THE HOUSE FOREIGN AFFAIRS COMMITTEE

February 8, 1984

Mr. Chairman, my colleagues and I welcome this opportunity to discuss the work and the report of the National Bipartisan Commission on Central America with the Foreign Affairs Committee of the House of Representatives.

Two distinguished members of this Committee, Representatives Broomfield and Barnes, participated in the deliberations of our Commission. We are grateful for their constructive contributions, as we are for the cooperation of the other members of the Congress who served as senior counsellors to the Commission: Representatives Wright and Kemp; Senators Bentsen, Inouye, Domenici and Mathias. I need not remind you, however, Mr. Chairman, that the report of the Commission is the sole responsibility of its 12 members and does not necessarily represent the views of the counsellors.

As you will recall, Mr. Chairman, it was the late Senator Henry Jackson who proposed the establishment of a bipartisan commission on Central America. He saw that the crisis confronting this country in that nearby region called for a national response, above party and above partisanship of any kind. As a man who devoted his life to the national welfare, he well knew that such a challenge demands a bipartisan policy. In his mind was the Marshall Plan, that historic example of how the Congress and the Executive can work together across party lines to safeguard the national interest and advance our nation's ideals.

In the spirit in which the Commission was conceived we have delivered to the President and the Congress a report reflecting a broad and truly bipartisan consensus on the basic issues for U.S. policy in Central America. We on the Commission were of diverse backgrounds and diverse political convictions. Among our members were liberals and conservatives, Democrats, Republicans and Independents. But during more than five months of intensive labor we laid aside partisan considerations and party labels. Our report is the statement of an independent citizens group, animated in the best American tradition only by concern for the common welfare. It seeks to convey an objective account of what we found to be the realities of Central America and of what we believe should be done for the good of our neighbors there -- and for the good of the United States.

Let me briefly state what this bipartisan, or perhaps better said non-partisan, consensus embraces.

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First, the Commission has determined unanimously that the United States has fundamental interests, including national security interests, at stake in Central America. We have concluded that these interests are in jeopardy because of an acute crisis in the region -- a very real crisis demanding urgent action.

The region's grave situation has indigenous roots. These lie in a long history of the exploitation of the many by the few -- in social injustice, maldistribution of national income, closed political systems and governmental oppression. We subscribed fully in the report to the statement of the Catholic Conference of Latin American Bishops in 1979 that there is a "contradiction of Christian existence" in the "growing gap between rich and poor."

But in our judgment Central America's predicament has been brought to a head by the confluence of Soviet-Cuban intervention and international economic recession. It is the first that threatens all efforts to achieve peace and progress in the region. It is the second that aggravates human suffering and makes the prospects for its alleviation so difficult.

The economies of Central America, highly dependent on the export of primary commodities and on inter-regional trade, have been devastated by world recession and local violence. Gross domestic product per capita has declined since the late 1970's by

- 35 percent in El Salvador
- 12 percent in Honduras
- 23 percent in Costa Rica
- 14 percent in Guatemala
- 38 percent in Nicaragua.

These are grave statistics. What they mean in human terms is massive unemployment, more hunger and diminished hope that the fearful consequences of the region's grinding poverty can be overcome. Today one-third of all the people in Central America lack sufficient income to feed themselves at an adequate nutritional level.

But the Commission determined that a restoration of economic growth alone would not reach the roots of the Central American crisis. Fundamental social and political reforms must go forward in several countries if lasting solutions are to be achieved. Above all, it was clear to us after these months of intensive study that the overwhelming majority of Central Americans aspire to live in freedom -- in democratic, pluralistic societies. Thus, the cornerstone of the program we propose is the commitment of all the nations of Central America to democratization -- and a corresponding commitment by the United States to support and assist in that process. We can

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contribute substantially through expanded exchange programs, through the National Endowment for Democracy, by encouraging grass-roots organizations where democratic practices are learned and, above all, by making free societies a central objective of every one of our development programs.

Injustice and poverty create the conditions in which subversion and insurgency can thrive. The Commission's report argues that more widespread economic opportunity is critically important to the region's future well-being. We have proposed a series of measures to support agricultural development, strengthen small business and the small farmer, promote cooperatives and generally to broaden opportunities for those who until now have been kept on the margins of economic life. Reform will ultimately depend, of course, on the policies of the Central American governments themselves. But the United States can do much to encourage and reinforce movement in the right direction.

We also put forth an extensive list of proposals in response to the pressing needs of Central America's poor for basic education, better health and housing. These include measures to reduce dramatically the scourges of disease and malnutrition among children, to eradicate malaria and dengue fever, to broaden literacy and primary education, and to expand low-cost housing programs, particularly through private-sector initiative. The United States in our judgment should demonstrate an unmistakable commitment to the goal of a better quality of life for Central America's poverty-stricken peoples. By doing so we serve both our strategic and moral interests. Here, as in the effort to advance democracy, those interests coincide.

Our report addresses the requirement for immediate action to arrest the alarming decline in economic and social conditions in Central America. We recommend an increase now in U.S. economic assistance of \$400 million, as well as other measures to deal with the short-term impact of the crisis. But the Commission recognized, as I am sure this Committee does, that it will take many years to overcome the legacies of social injustice and economic underdevelopment. We have therefore emphasized the necessity for a long-term program, solidly based on coherent and steady U.S. policy -- a lasting commitment by this country to the freedom and welfare of our neighbors in Central America.

The Commission's program is ambitious, but by no means extreme or gargantuan. What we are recommending in tabling the figure of \$8 billion for economic assistance over the next five fiscal years is not much more than double what the United States is doing now. This figure reflects a careful analysis of the region's external financing requirements and is based on what I would describe as rather optimistic assumptions. In terms of Central America's needs, it is a moderate request, one

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designed to help these countries return by 1990 to where they were in 1978-1980 when per capita income was growing at about three percent a year.

To give structure, consistency and continuing direction to this sustained effort the report proposes that authorities at a high level of our government meet with Central American counterparts to negotiate the creation of the Central American Development Organization (CADO). In our concept CADO would provide guidance and review for the development programs -- economic, political and social -- of those Central American nations eligible to join by reason of commitment to internal reform and democracy, as well as to external non-intervention. We envisaged other democracies outside the region as prospective participants. It was our judgment that to be effective CADO should serve as a channel for significant external assistance to the region.

Mr. Chairman, the distinguished President of Costa Rica, Luis Alberto Monge, has characterized the report of the Bipartisan Commission on Central America as an "intervention against misery and against ignorance..." Those words are heartening indeed to my colleagues and me. That was our intention: to call upon our government and our people to engage fully at the side of our Central American neighbors in the struggle against misery and ignorance.

For that effort to prosper, however, more than reform and resources will be required. There must be an end to the violence that wracks Central America today. The killing must stop so that the building of better societies can go forward.

A fundamental conclusion we reached after months of careful study was that the various elements of the crisis -- the economic, social, political and security issues -- form, as the report puts it, a seamless web. They cannot be separated. Each impacts one on the other. For example, lasting progress on the economic and social fronts requires peace. The pace of reform and economic expansion simply does not match that of insurgency. Guerrillas can destroy much faster than reformers can build. But on the other side, peace cannot be achieved unless there is tangible hope for escape from misery and oppression. Thus, the Commission has proposed a comprehensive program to deal with all these elements. We are gratified that the Administration has adopted that approach in announcing the forthcoming submission to the Congress of the "Central America Democracy, Peace and Development Initiative Act of 1984." It is our hope that the Congress too will find the concept of a comprehensive program in the national interest.

I believe the report makes clear that essentially two situations in Central America threaten the security of the region and thereby the interests of the United States. The first is in Nicaragua where an unprecedented military buildup,

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an ideological commitment to the export of revolution and military ties to the Soviets and Cubans weigh heavily on neighboring countries. Last year 15,000 tons of arms reached the Sandinista armed forces from abroad, including Soviet-built armored vehicles and other heavy armaments. There are now at least 25,000 regular troops and another 50,000 active reserves and militia in that country of no more than three million people. No less than 2,000 Cuban military advisers are in Nicaragua, and as the Commission found for itself on our visit to Managua, the Sandinista military establishment is closely tied into the Cuban-Soviet intelligence network.

Nicaragua's menacing military machine, the Soviet-Cuban connections and active Sandinista support for insurgency and subversion in neighboring countries create fear in the region -- and threaten it with arms races and general militarization.

To deal with these issues, the Commission's report proposes a vigorous negotiating effort directed toward including Nicaragua in a regional settlement designed to ensure lasting security guarantees for all the nations of Central America. Such a settlement would be squarely based on the principles contained in the 21-point proposal of the Contadora group. These would include non-intervention and respect for national sovereignty; an end to the arms traffic and other actions directed at subverting governments; the prohibition of foreign military forces, advisers and bases; a substantial reduction in the size and armaments of military forces; and the commitment by all countries of the region to internal pluralism and free elections. I emphasize that this last point would apply to all the nations of Central America. My colleagues and I felt strongly that it would be unjustifiable to ask more in this context of El Salvador than of Nicaragua. And we believed that by calling for democratization as an important element of regional security, as the Contadora proposals do, we were identifying ourselves with the deepest aspirations of the peoples of Central America.

In framing these recommendations the Commission drew heavily on our consultations with the leaders of the Contadora countries. We had the opportunity to discuss the issues of negotiations and peace with the presidents and other high officials of Mexico, Venezuela, Panama and Colombia -- the four members of the group. Their efforts to construct a peaceful settlement constitute a most important initiative, one meriting the unstinting support of the United States. You will note, Mr. Chairman, that the Commission's report urges such support and endorses the Contadora process as "deserving the gratitude and encouragement of all the nations of the hemisphere."

El Salvador's tragic civil war is the second situation in which critical security concerns must be addressed. It was the Commission's judgment that a stable resolution of that bitter

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conflict consonant with the aspirations and well-being of the Salvadoran people must be based on the democratic process.

The Commission determined that proposals for what is commonly described as "power-sharing" did not meet that essential criterion. Dissolving the existing elected government and replacing it with a provisional regime in which the insurgents would have a major role seemed to us neither fair to the people of El Salvador nor workable in terms of reconciling the contending forces. As we saw it, the final outcome of such a scheme could well be Marxist-Leninist domination and the imposition of a government unwilling to rest its authority on the consent of the governed.

But our report does recognize the importance of bringing into the democratic process those elements of the guerrillas' political-military front prepared to participate and abide by the popular will. In addition, the report emphasizes the necessity to establish conditions in which all political movements, including those of the left, can compete freely and peacefully for the voters' favor.

Further, we concluded that the establishment of such conditions should properly be the subject of negotiations between the insurgents and the government. But we found that time constraints and the circumstances now prevailing in El Salvador make it unlikely that meaningful negotiations can be carried out before the national elections scheduled for March 25. The report therefore calls for these negotiations to take place once the new government is elected. The objective would be to enable all who so desired to take part fully and without fear in the subsequent legislative and municipal elections.

I cannot stress too strongly how much importance the Commission attached to vigorous diplomacy on the part of the United States, diplomacy carried out, as the report states, to achieve the broad objectives of

- stopping the war and the killing in El Salvador;
- creating conditions under which Nicaragua can take its place as a peaceful and democratic member of the Central American community; and
- opening the way for democratic development throughout the isthmus.

But it was also our conclusion, Mr. Chairman, that diplomacy and negotiations do not take place in a vacuum. We cannot escape the fact that the Cubans, Soviets and Nicaraguan Sandinistas are engaged in a serious and substantial effort to promote Marxist-Leninist revolution in the region. The armed insurgents who serve their cause are unlikely to perceive negotiations as anything more than a tactical maneuver as long as they believe they can win power on the field of battle. Similarly, the Sandinistas would have no apparent cause to

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redeem the promises of democracy and non-alignment they made to the OAS in 1979 unless significant incentives and pressures were present to move them in that direction.

The diplomatic effort then can complement but not substitute for the other actions necessary to an increased sense of security and rising prospects for political and economic progress in the region. As I previously suggested, Mr. Chairman, our report reflects the Commission's judgment that all the elements of the crisis must be addressed simultaneously. We found no short cuts -- no gimmicks, negotiating or otherwise -- to produce quick solutions. Rather, it was the view of the Commission that to attempt to deal singly with any one aspect -- diplomatic, economic, political or security -- would be a certain recipe for failure. Thus, as one element of a broad program, the report recommends increased military assistance under proper conditions to the governments of El Salvador and Honduras. That assistance will reinforce the diplomatic effort by helping to create the conditions under which peaceful settlements may be reached and the objective of a better life in freedom for all Central Americans successfully pursued.

Gonzalo Facio, the former Foreign Minister of Costa Rica and a man well known to members of this Committee, has said of our report that it sets forth "the form in which these political, economic, social and military problems can be confronted today -- problems which have been incubating for centuries and which are now being exploited by the Soviet Union and its Cuban satellite." I believe that statement summarizes very well what we of the Commission were trying to do.

To return to the question of consensus, Mr. Chairman, you are aware that members of the Commission attached six notes to our report offering individual views on certain of its aspects. Two concern the anti-Sandinista guerrillas -- the so-called contras -- and one, which I signed with two other Commissioners, supports conditionality as applied to military aid to El Salvador but asks that it not be interpreted in a way that would lead to a Marxist-Leninist victory in that country. Another note concerns the conviction of one member that the report should have stressed to a greater and more specific degree the need to facilitate Central American exports to the U.S. The remaining notes strike me as more in the way of observations or amplifications than dissents. Altogether these views take up a little more than four pages of a report 132 pages long.

To provide a general perspective, I would like to cite the concluding paragraph of the Introduction to the report. It reads as follows:

Because the Commission has 12 members, each with strong individual views, there obviously are many things in this

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report to which individual members would have assigned different weight, or which they would have interpreted somewhat differently or put differently. Such is the nature of commissions. But these differences were personal, not partisan. This report, on balance, does represent what all of us found to be a quite remarkable consensus, considering the often polarized and emotional nature of the debate that has surrounded Central America. Among ourselves, we found a much greater degree of consensus at the end of our odyssey than at the beginning. This in itself gives us hope that the nation, too, as it learns more about Central America, its crisis and its needs, will find its way to a united determination to take and support the kind of measures that we believe are needed in the interests of the United States and of the hemisphere, and for the sake of the sorely beleaguered people of Central America.

Finally, Mr. Chairman, we on the Commission are well aware that many obstacles stand in the way of achieving the goals of our report. We have been told, as this Committee will be told, that virtually every one of our recommendations is impossible to achieve for one reason or another. Many arguments can be found for inaction in the face of the extraordinarily complex problems at issue in Central America. But my colleagues and I believe that, despite the many difficulties, the United States can with persistence and resolution accomplish much of what we propose -- and by so doing advance our interests and those of our neighbors. We do not promise success. But it is our conviction that failure to make the effort now will later cost this nation dearly.

Legislation

To the Congress of the United States:

I herewith transmit proposed legislation that embodies the consensus arrived at by the National Bipartisan Commission on Central America. Its unifying thread is the spirit of the late Senator Henry M. Jackson -- to advance the twin purposes of national security and human development.

Peace and individual betterment are universal purposes. They are at the heart of the American dream. Yet, today in Central America these goals are not realized. Poverty and violence are widespread. As a consequence, democratic forces are not able to flourish, and those who seek to disrupt freedom and opportunity threaten the heart of those nations.

Throughout our history, our leaders have put country before party on issues in foreign affairs important to the national interest. The Commission identifies the situation in Central America as this kind of issue. The 12 Commissioners -- Democrats and Republicans alike -- conclude "that Central America is both vital and vulnerable, and that whatever other crises may arise to claim the nation's attention, the United States cannot afford to turn away from that threatened region."

We face an inescapable reality: we must come to the support of our neighbors. The democratic elements in Central America need our help. For them to overcome the problems of accumulated historical inequities and immediate armed threats will take time, effort, and resources. We must support those efforts.

As the Commission recommends, our policy must be based on the principles of democratic self-determination, economic and social improvement that fairly benefits all, and cooperation in meeting threats to the security of the region.

Accordingly, I propose the "Central America Democracy, Peace and Development Initiative Act of 1984." This Act calls for an increased commitment of resources beginning immediately and extending regularly over the next five years. This assistance is necessary to support the balance of economic, political, diplomatic, and security measures that will be pursued simultaneously.

I propose authorization for an \$8 billion, five-year reconstruction and development program for Central America, composed of \$6 billion in direct appropriations and \$2 billion

in insurance and guarantee authority. For fiscal year 1985 the figures are \$1.1 billion and \$600 million, respectively. In addition, the plan calls for \$400 million in supplemental appropriations for an emergency economic stabilization program for fiscal year 1984.

These resources will support agricultural development, education, health services, export promotion, land reform, housing, humanitarian relief, trade credit insurance, aid for small businesses, and other activities. Because democracy is essential to effective development, special attention will be given to increasing scholarships, leadership training, educational exchanges, and support for the growth of democratic institutions.

Regional institutions such as the Central American Common Market (CACM) and the Central American Bank for Economic Integration (CABEI) made a major contribution to the region's economic growth in the 1960's and early 70's. I am proposing a substantial assistance program to revitalize these institutions and thereby stimulate intra-regional trade and economic activity.

To enable the countries of Central America to participate directly in the planning of these efforts, I shall explore the creation of a Central American Development Organization (CADO). This would enable political and private leaders from both the United States and Central America to review objectives and progress, and make recommendations on the nature and levels of our assistance efforts. The organization would, in effect, help to oversee and coordinate the major efforts that must be made. The legislation I am proposing sets out a series of principles to guide the negotiations for the establishment of this new regional institution. I intend to respect those principles in these negotiations and in our subsequent participation in CADO. As the Commission recognized, the ultimate control of aid funds will always rest with the donors. Consistent with the Constitution and this precept, final disposition of funds appropriated under this legislation will be subject to the ultimate control of the Congress and the President.

The National Bipartisan Commission specifically recommends significantly increased levels of military aid to the region, especially El Salvador. In the words of the Report, "the worst

possible policy for El Salvador is to provide just enough aid to keep the war going, but too little to wage it successfully." I propose authorization for a \$259 million supplemental appropriation for the region for fiscal year 1984 and a \$256 million program for fiscal year 1985.

U.S. military assistance is vital to shield progress on human rights and democratization against violence from extremes of both left and right. I shall ensure that this assistance is provided under conditions necessary to foster human rights and political and economic development, and our Administration will consult with the Members of the Congress to make certain that our assistance is used fairly and effectively.

No new laws are needed to carry out many of the Commission's recommendations. There is, for example, a consensus on an integral part of our strategy in Central America: support for actions implementing the 21 Contadora objectives to help bring about peace. The Contadora objectives are in Central America's interest and in ours. Similarly, we are urging other nations to increase their assistance to the area.

I believe it is no accident that the Commission reached many of the same conclusions about comprehensive solutions to Central America's problems as have the participants in the Contadora process. As Dr. Kissinger noted in his January 10 letter to me, "the best route to consensus on U.S. policy toward Central America is by exposure to the realities of Central America."

The National Bipartisan Commission on Central America has done its work. Now it is our turn. Unless we act -- quickly, humanely, and firmly -- we shall face a crisis that is much worse for everyone concerned. We owe it to our children to make sure that our neighbors have a chance to live decent lives in freedom.

I, therefore, ask that the enclosed legislation be given your urgent attention and early and favorable action.

Ronald Reagan

A BILL

To establish a long-term framework to build democracy, restore peace, and improve living conditions in Central America, to authorize assistance for the fiscal years 1984 through 1989, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SEC. 1. This Act may be cited as the "Central America Democracy, Peace and Development Initiative Act of 1984".

TITLE I - STATEMENT OF POLICY

SEC. 101. The Congress finds that the building of democracy, the restoration of peace, and the improvement of living conditions in Central America are important to the interests of the United States and the community of American States. The Congress further finds that the interrelated issues of social and human progress, economic growth, political reform, and regional security must be effectively dealt with to assure a democratic and economically and politically secure Central America.

The achievement of democracy, human rights, peace, and equitable economic growth depends primarily on the cooperation and the human and economic resources of the people and governments of Central America. The Congress recognizes that

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the United States can make a significant contribution to such peaceful and democratic development through a consistent and coherent policy which includes a long-term commitment of both economic and military assistance. This policy should be designed to support actively democracy, political reform and human rights; to promote equitable economic growth and development; to foster dialogue and negotiations to achieve peace based upon the objectives of democratization, reduction of armament, an end to subversion, and the withdrawal of foreign military forces and advisors; and to provide a security shield against violence and intimidation. It is the purpose of this Act to establish the statutory framework and to authorize the appropriations and financing necessary to carry out the policy described in this section.

TITLE II - ECONOMIC AND HUMAN DEVELOPMENT

FINDINGS

SEC. 201. (a) The Congress finds that lagging economic growth and widespread poverty continue to plague most of the nations of Central America, and that inadequate and declining opportunities for economic betterment seriously undermine the peace and security of the region. Although the causes of the economic decline are several, the Congress believes that equitable economic growth can be achieved based on the following principles, which shall guide the furnishing of assistance under this title:

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(1) development and implementation by the countries of Central America of appropriate, growth-oriented, economic policies that foster increased production, investment, trade, and regional cooperation;

(2) increased participation and promotion of the private sector, including cooperatives, in development;

(3) creation and improvement of private and public sector institutions in order to expand the access of the people of the region to the knowledge and tools for development;

(4) recognition that the problems of hunger and malnutrition, health deficiencies, infant and child mortality, population growth, illiteracy and skill deficiencies, underemployment and unemployment, and financial instability are each related to the other, and each must be addressed if equitable economic growth is to occur.

(b) Agricultural Development. Increased development of the region's agricultural sectors will be required in order to expand employment opportunities, diversify and expand agricultural production, and increase incomes in areas which contain the majority of the region's poor. To achieve these purposes, assistance is required for agricultural development activities in Central America. Such activities may include: the provision of credit to make possible the purchase of land

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and necessary farm equipment and other inputs by small farmers; the distribution of land through comprehensive agrarian reform programs; the expansion of research and extension services; the promulgation of more production-oriented agricultural pricing policies; agricultural export promotion activities; and the expansion of roads, storage facilities, rural electrification, and other rural infrastructure.

(c) Education. Improvement in the availability and quality of educational opportunities is necessary if the people of the region are to acquire the technical skills and information needed to increase productivity, solve health problems, and integrate the poor into the development process. In order to achieve these purposes, assistance is required for education activities in Central America. Such activities may include: expanded programs of secondary level technical and vocational education; primary education programs; training of professionals in public administration; scholarship programs; and university strengthening programs in Central America.

(d) Health and Population. Universal access to primary health care, reduction of infant mortality, and population growth rates are important aspects of economic development in the Central America region. In this context, assistance is required for health and population activities in Central America. Such activities may include: expansion of programs of oral rehydration and immunization; control of vector-borne

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diseases; training of primary health care workers, nurses, dental assistants and personnel in allied health skills; and family planning programs, consistent with section 104(f) of the Foreign Assistance Act of 1961.

(e) Housing. With urbanization throughout Central America rapidly transforming the character of the region, national and local governments must be able to meet the social and economic strains attendant to such significant movements of people into urban areas. This trend has far outpaced the growth of shelter and the ability of governments to provide such basic services as water, sanitation, electricity and public transport. In order to meet these requirements, assistance or the provision of guarantees is required for infrastructure and housing activities in Central America. Such activities may include: construction of urban housing and infrastructure, support for housing banks and other financial associations, and extension of housing guarantees.

(f) Economic Stabilization. Reduced revenues due to a combination of price declines for exports and oil price increases (compounded by inadequate availability of indigenous energy resources), increased spending as a result of rapid expansion of governmental programs and public-sector enterprises, spiraling interest rates, and severe external debt problems are several factors which have had serious detrimental effects on the economic and political stability of the region.

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In order to assist the countries of the region to undertake the economic adjustments necessitated by these conditions, assistance is required for economic stabilization programs in Central America.

(g) Humanitarian Relief. Assistance is required to provide humanitarian relief and rehabilitation assistance for refugees and displaced persons in Central America.

(h) Investment Insurance. Additional investment is critical to improved economic conditions in Central America. The Overseas Private Investment Corporation, therefore, consistent with its statutory mandate should make every effort to support projects in the region.

DEVELOPMENT ASSISTANCE

SEC. 202. (a) In addition to amounts otherwise available for such purposes, there are authorized to be appropriated to the President for Central American countries --

(1) \$10,000,000 for the fiscal year 1984 and \$69,800,000 for the fiscal year 1985 to carry out the provisions of section 103 of the Foreign Assistance Act of 1961;

(2) \$5,000,000 for the fiscal year 1984 and \$15,000,000 for the fiscal year 1985 to carry out the provisions of section 104(b) of the Foreign Assistance Act of 1961;

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(3) \$18,000,000 for the fiscal year 1984 and \$40,000,000 for the fiscal year 1985 to carry out the provisions of section 104(c) of the Foreign Assistance Act of 1961;

(4) \$10,000,000 for the fiscal year 1984 and \$64,000,000 for the fiscal year 1985 to carry out the provisions of section 105 of the Foreign Assistance Act of 1961;

(5) \$30,000,000 for the fiscal year 1984 and \$84,000,000 for the fiscal year 1985 to carry out the provisions of section 106 of the Foreign Assistance Act of 1961;

(6) \$10,000,000 for the fiscal year 1985 for purposes of the fund established by section 223 of the Foreign Assistance Act of 1961: Provided, That funds made available for such purposes shall be available for expenditure in discharge of guaranties extended prior to enactment of this Act;

(7) \$2,489,000 for the fiscal year 1984 and \$6,016,000 for the fiscal year 1985 to carry out the provisions of section 667 of the Foreign Assistance Act of 1961.

(b) Amounts appropriated pursuant to this section are authorized to remain available until expended.

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ECONOMIC SUPPORT FUND

SEC. 203. (a) In addition to amounts otherwise available for such purposes, \$290,500,000 is authorized to be appropriated to the President for the fiscal year 1984 to carry out the provisions of chapter 4 of part II of the Foreign Assistance Act of 1961 for Central American countries.

(b) In addition to amounts otherwise available for such purposes, \$640,600,000 are authorized to be appropriated to the President for the fiscal year 1985 to carry out the provisions of chapter 4 of part II of the Foreign Assistance Act of 1961 for Central American countries.

(c) Amounts appropriated pursuant to this section are authorized to remain available until expended.

PEACE CORPS

SEC. 204. (a) In addition to amounts otherwise available for such purposes, \$2,000,000 are authorized to be appropriated for the fiscal year 1984 to carry out the purposes of the Peace Corps Act for Central American countries.

(b) In addition to amounts otherwise available for such purposes, \$18,200,000 are authorized to be appropriated for the fiscal year 1985 to carry out the purposes of the Peace Corps Act for Central American countries.

(c) Amounts appropriated pursuant to this section are authorized to remain available until expended.

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UNITED STATES INFORMATION AGENCY

SEC. 205. (a) In addition to amounts otherwise available for such purposes, \$7,000,000 are authorized to be appropriated for the fiscal year 1984 to carry out for Central American countries international information, educational, cultural, and exchange programs under the United States Information and Educational Exchange Act of 1948, the Mutual Educational and Cultural Exchange Act of 1961, and Reorganization Plan Number 2 of 1977, and other purposes authorized by law.

(b) In addition to amounts otherwise available for such purposes, \$36,400,000 are authorized to be appropriated for the fiscal year 1985 to carry out for Central American countries international information, educational, cultural, and exchange programs under the United States Information and Educational Exchange Act of 1948, the Mutual Educational and Cultural Exchange Act of 1961, and Reorganization Plan Number 2 of 1977, and other purposes authorized by law.

(c) Amounts appropriated pursuant to this section are authorized to remain available until expended.

MIGRATION AND REFUGEE ASSISTANCE

SEC. 206. (a) In addition to amounts otherwise available for such purposes, \$15,000,000 are authorized to be appropriated for the fiscal year 1985 for the Department of State to carry out for Central American countries the authorities, functions, duties, and responsibilities in the

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conduct of the foreign affairs of the United States and other purposes authorized by law for "Migration and Refugee Assistance".

(b) Amounts appropriated pursuant to this section are authorized to remain available until expended.

HOUSING GUARANTY PROGRAM

SEC. 207. In addition to amounts otherwise authorized for such purposes, \$40,000,000 of loan principal are authorized to be guaranteed under sections 221 and 222 of the Foreign Assistance Act of 1961 for Central American countries for the fiscal year 1985.

ADMINISTRATION OF JUSTICE

SEC. 208. Chapter 1 of part I of the Foreign Assistance Act of 1961 is amended by inserting after section 116 the following new section:

"Sec. 117. Administration of Justice - (a)

Notwithstanding section 660 of this Act, the President may furnish assistance to countries and organizations, including national and regional institutions, in order to strengthen the administration of justice in Central American countries and the countries of the Caribbean. Assistance under this section may include: support for specialized professional training, scholarships, and exchanges for continuing legal education; programs to enhance judicial, prosecutorial, investigative and

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enforcement capabilities and to provide protection for participants in judicial cases; strengthening professional organizations, to promote services to members and the role of the bar in judicial selection, enforcement of ethical standards, and legal reform; increasing the availability of legal materials and publications; seminars, conferences, training and educational programs to improve the administration of justice and to strengthen respect for the rule of law and human rights; and revision and modernization of legal codes and procedures.

"(b) Not more than \$20,000,000 of the funds made available to carry out this chapter and chapter 4 of part II for any fiscal year shall be available to carry out this section, in addition to amounts otherwise available for such purposes."

TRADE CREDIT INSURANCE PROGRAM

SEC. 209. Chapter 2 of part I of the Foreign Assistance Act of 1961 is amended by adding at the end thereof the following new section:

"SEC. 224. Trade Credit Insurance Program - (a) Of the funds authorized to be appropriated for chapter 4 of part II of the Foreign Assistance Act of 1961, there are authorized to be made available such sums as may be necessary for payments by the Agency for International

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Development to discharge guarantees of liabilities incurred by the Export-Import Bank of the United States under guarantees and insurance approved under the Export-Import Bank Act of 1945 (i) covering risks of loss or non-payment under short-term trade credits for the purpose of financing goods and services for the use of the private sector in Central American countries and (ii) which do not in the judgment of the Board of Directors of the Export-Import Bank of the United States offer reasonable assurance of repayment as required under Section 2(b)(1)(B) of the Export-Import Bank Act of 1945. Such short-term credits shall be repayable within a period not to exceed one year. Amounts appropriated under the authority of this section shall not be used to discharge guarantees of liabilities incurred by the Export-Import Bank of the United States under guarantees and insurance approved under the Export-Import Bank Act of 1945 after September 30, 1989.

"(b) Commitments to guarantee or insure under subsection (a) of this section are authorized only to the extent and in the amounts provided in appropriations acts, not to exceed \$300,000,000 in the fiscal year 1985.

"(c) Recoveries, after deduction for expenses related thereto, accruing under guarantees and insurance authorized under subsection (a) of this section shall be deposited in the Treasury as Miscellaneous Receipts."

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LAND REFORM PROGRAMS

SEC. 210. Section 620(g) of the Foreign Assistance Act of 1961 is amended by inserting the following sentence at the end thereof:

"This prohibition shall not apply to monetary assistance made available for use by a government or political subdivision or agency of such government to compensate nationals of that country in accordance with a land reform program, if the President determines that monetary assistance for such land reform program will further the national interests of the United States.".

CENTRAL AMERICAN DEVELOPMENT ORGANIZATION

SEC. 211. (a) The Congress finds that participation by Central American countries in an effective forum for dialogue on, and the continuous review and advancement of, Central America's political, economic, and social development would foster cooperation between the United States and Central American countries in furthering the purposes of this Act.

(b) It is the sense of Congress that --

(1) the President enter into negotiations with those countries receiving assistance authorized by this Act in order to establish a Central American Development Organization, and

(2) the establishment of the Central American Development Organization be based upon the following principles:

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(A) Participation in the organization be open to the United States, other donors, and those Central American countries that commit themselves to, among other things, progress on human rights, building democracy, and encouraging equitable economic growth through policy reforms.

(B) The organization be structured to include representatives from both the public and private sectors, including representatives from the labor and business communities.

(C) The organization meet periodically to carry out the functions described in subparagraphs D and E of this paragraph and should be supported by a limited professional secretariat.

(D) The organization make recommendations affecting Central American countries on such matters as:

(i) political, economic, and social development objectives, including the strengthening of democratic pluralism and the safeguarding of human rights;

(ii) mobilization of resources and external assistance needs; and

(iii) reform of economic policies and structures.

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(E) The organization have the capacity for monitoring country performance on the recommendations issued in accordance with subparagraph D of this paragraph and for evaluating progress towards meeting such country objectives.

(F) For each fiscal year after that in which the President has completed negotiations and agreed to participate in such organization, the disbursement of 25 per centum of the economic funds authorized by title II of this Act and allocated by the United States directly for each Central American country be deferred until the United States and the organization have both approved disbursement.

(G) The President encourage other donors similarly to designate a percentage of their direct economic assistance for Central American countries for joint approval with this organization.

(c) The President is authorized to participate in the Central American Development Organization. The Administrator of the agency primarily responsible for administering part I of the Foreign Assistance Act of 1961, or his designee, shall be the chairman of the Central American Development Organization. The Administrator shall carry out his functions in that capacity under the continuous supervision and general direction of the Secretary of State to the end that United States

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participation in the Central American Development Organization is fully integrated with the foreign policy of the United States.

ECONOMIC ASSISTANCE

SEC. 212. (a) In addition to amounts otherwise available for such purposes, there are authorized to be appropriated to the President, for the purpose of furnishing non-military assistance for Central American countries, \$1,200,000,000 for each of the fiscal years 1986 through 1989, to remain available until expended. The President is authorized to transfer funds authorized by this section for obligation in accordance with the authorities of part I of the Foreign Assistance Act of 1961 (including chapter 4 of part II of such Act), the Peace Corps Act, the Migration and Refugee Assistance Act of 1962, the United States Information and Educational Exchange Act of 1948, the Mutual Educational and Cultural Exchange Act of 1961, the National Endowment for Democracy Act, and the State Department Basic Authorities Act of 1956, as amended.

(b) In addition to amounts otherwise authorized for such purposes, \$40,000,000 of loan principal are authorized to be guaranteed under sections 221 and 222 of the Foreign Assistance Act of 1961 for Central American countries for each of the fiscal years 1986 through 1989.

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(c) In addition to amounts otherwise authorized for such purposes, \$200,000,000 of loan principal are authorized to be guaranteed or insured for Central American countries for the fiscal year 1986 under section 224 of the Foreign Assistance Act of 1961.

TITLE III - MILITARY ASSISTANCE, SALES AND RELATED PROGRAMS
FINDINGS

SEC. 301. The Congress finds that the restoration of peace in Central America is essential to economic and humanitarian progress in that region. The Congress believes that restoring peace and stability will require a combination of social and political reforms, economic advances, diplomatic efforts and measures to enhance security, based upon the following principles:

(1) military measures are needed to shield economic and social programs and are an essential adjunct to a diplomatic solution to conflict in the region;

(2) military measures will only aid in restoring peace if they are complemented by political, economic and social programs and reforms;

(3) assistance for military purposes should be furnished predictably, in amounts and over a period of time adequate to carry out a humane and effective anti-guerrilla strategy;

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(4) assistance for military purposes should be employed actively to foster human rights objectives, particularly the goals of free elections, freedom of association, the establishment of the rule of law and an effective judicial system, and vigorous action against those guilty of crimes and the prosecution of past offenders;

(5) a diplomatic solution must be found that will stop the killing in the region and nourish freedom and progress.

MILITARY ASSISTANCE

SEC. 302. (a) In addition to amounts otherwise available for such purposes, \$259,050,000 is authorized to be appropriated to the President for the fiscal year 1984 to carry out for Central American countries the provisions of chapter 2 of part II of the Foreign Assistance Act of 1961.

(b) In addition to amounts otherwise available for such purposes, \$222,000,000 are authorized to be appropriated to the President to carry out for the fiscal year 1985 the provisions of chapter 2 of part II of the Foreign Assistance Act of 1961 for Central American countries.

(c) Amounts appropriated pursuant to this section are authorized to remain available until expended.

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MILITARY EDUCATION AND TRAINING

SEC. 303. (a) In addition to amounts otherwise available for such purposes, \$3,900,000 are authorized to be appropriated to the President for the fiscal year 1985 to carry out for Central American countries the provisions of chapter 5 of part II of the Foreign Assistance Act of 1961.

(b) Amounts appropriated pursuant to this section are authorized to remain available until expended.

FOREIGN MILITARY SALES FINANCING

SEC. 304. (a) In addition to amounts otherwise available for such purposes, \$30,000,000 are authorized to be appropriated for the fiscal year 1985 to carry out for Central American countries the purposes of section 23 of the Arms Export Control Act.

(b) Amounts appropriated pursuant to this section are authorized to remain available until expended.

REPORTING REQUIREMENT

SEC. 305. (a) Not later than July 31, 1984, and no later than the end of each six month period thereafter, the President shall submit to the Speaker of the House of Representatives and the chairman of the Committee on Foreign Relations of the Senate a detailed report fully describing the policies of the Government of El Salvador for achieving political development, economic development and conditions of security. The report shall also include the President's detailed assessment of the

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strengths and weaknesses of such policies in meeting the objectives, described in section 101, which United States policy is designed to support, including the specific goals of human rights, free elections, freedom of association, dialogue and negotiations to achieve peace, the establishment of the rule of law and an effective judicial system, the curtailment of extremist violence by both the left and the right as well as vigorous action to prosecute those guilty of crimes and the prosecution to the extent possible of past offenders. This report shall also review comprehensively the factors contributing to the political, economic and security situation in that country, including such factors as human rights, land reform, the economy of the country, refugees and displaced persons, the military situation and guerrilla activity.

(b) The President shall ensure that assistance authorized by title III of this Act is provided to the Government of El Salvador in a manner which fosters progress of that government towards the objectives of political development, economic development and security. To this end, the President in every appropriate instance shall impose conditions on the furnishing to the Government of El Salvador of assistance authorized by title III of this Act in order to achieve these objectives, including the goals identified in subsection (a) of this section.

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TITLE IV -- MISCELLANEOUS PROVISIONS

DEFINITIONS

SEC. 401. For the purposes of this Act, including amendments to the Foreign Assistance Act of 1961 made by this Act, the term "Central American countries" shall be deemed to include Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and regional programs which benefit such countries.

TRANSFER AUTHORITY

SEC. 402. Whenever the President determines it to be necessary for the purposes of this Act, in each of the fiscal years 1984 and 1985 not more than a total of \$50,000,000 from funds made available for provisions authorized by this Act may be transferred to, and consolidated with, funds made available for provisions authorized by Title II of this Act.

COORDINATION

SEC. 403. Under the direction of the President, the Secretary of State shall be responsible for the continuous supervision and general direction of programs undertaken to carry out the purposes of this Act.

Analysis

SECTION-BY-SECTION ANALYSIS
OF THE PROPOSED
CENTRAL AMERICA DEMOCRACY, PEACE
AND DEVELOPMENT INITIATIVE ACT
OF 1984

I. INTRODUCTION

The proposed Central America Democracy, Peace and Development Initiative Act of 1984 ("the Bill") establishes a long-term framework to build democracy, restore peace, and improve living conditions in Central America and authorizes assistance for the fiscal years 1984 through 1989. The Bill contains freestanding provisions and amends the Foreign Assistance Act of 1961 in order to carry out the recommendations of the National Bipartisan Commission on Central America.

The Bill is composed of four titles. Title I consists of a statement of policy concerning Central America. Title II consists of a statement of findings and authorizations for programs for economic and human development. Title III contains findings and authorizations for programs for military assistance, sales and related programs under the Arms Export Control Act and the Foreign Assistance Act of 1961. Title IV consists of provisions concerning definitions, transfer of funds, and coordination of policy.

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The amounts which would be authorized by this Bill will be available for use for Central American countries, including regional programs which benefit such countries. Those amounts authorized for the fiscal year 1984 in this Bill would be in addition to amounts previously authorized, appropriated or otherwise made available for Central American countries for the current fiscal year. Those amounts authorized for the fiscal years 1985 through 1989 would be in addition to amounts authorized, appropriated or otherwise made available for such purposes for that fiscal year.

II. PROVISIONS OF THE BILL

SECTION 1. SHORT TITLE

This section provides that the Bill may be cited as the "Central America Democracy, Peace and Development Initiative Act of 1984".

TITLE I - STATEMENT OF POLICY

SECTION 101.

This section states the finding of Congress that the building of democracy, the restoration of peace, and the improvement of living conditions in Central America are important to the interests of the United States and the community of American states. The section further states the findings of Congress concerning the importance of effectively dealing with interrelated social, humanitarian, economic, political, diplomatic and security issues to assure a

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democratic and economically and politically secure Central America. In this section, Congress further recognizes that, although the achievement of democracy, human rights, peace, and equitable economic growth depends primarily on the people and governments of Central America, the United States can make a significant contribution through a long-term policy which includes a long-term commitment of both economic and military assistance. In this section, Congress further defines the goals which the policy of the United States should seek to achieve and indicates that the purpose of the Act is to establish the statutory framework and authorize the funding necessary to carry out this policy.

TITLE II - ECONOMIC AND HUMAN DEVELOPMENT

SECTION 201. FINDINGS

In this section, the Congress defines basic principles which will guide furnishing of assistance for economic and human development. The principles which shall guide the development and implementation of programs of agricultural development, education, health and population, housing, and economic stabilization shall include growth-oriented economic policies, increased participation of the private sector, development of energy resources, creation and improvement of private and public sector institutions, and recognition that basic human needs and economic stabilization must both occur if equitable growth is to take place.

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SECTION 202. DEVELOPMENT ASSISTANCE

This section authorizes appropriations for development assistance programs, for the fiscal years 1984 and 1985, respectively, as follows:

Agriculture, rural development, and nutrition, \$10,000,000 and \$69,800,000;

Population, \$5,000,000 and \$15,000,000;

Health, \$18,000,000 and \$40,000,000;

Education and human resources development, \$10,000,000 and \$64,000,000;

Selected development activities, \$30,000,000 and \$84,000,000;

Housing guaranty reserve fund, \$10,000,000 (for the fiscal year 1985);

Operating expenses, Agency for International Development, \$2,489,000 and \$6,016,000;

This section also provides that the amounts appropriated pursuant to this section are authorized to remain available until expended.

SECTION 203. ECONOMIC SUPPORT FUND

This section authorizes for the Economic Support Fund \$290,500,000 for the fiscal year 1984 and \$640,600,000 for the fiscal year 1985. This section also provides that the amounts appropriated pursuant to this section are authorized to remain available until expended.

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SECTION 204. PEACE CORPS

This section authorizes for the Peace Corps \$2,000,000 for the fiscal year 1984 and \$18,200,000 for the fiscal year 1985. This section also provides that the amounts appropriated pursuant to this section are authorized to remain available until expended.

SECTION 205. UNITED STATES INFORMATION AGENCY

This section authorizes for the United States Information Agency \$7,000,000 for the fiscal year 1984 and \$36,400,000 for the fiscal year 1985. This section also provides that the amounts appropriated pursuant to this section are authorized to remain available until expended.

SECTION 206. MIGRATION AND REFUGEE ASSISTANCE

This section authorizes for migration and refugee assistance \$15,000,000 for the fiscal year 1985. This section also provides that the amounts appropriated pursuant to this section are authorized to remain available until expended.

SECTION 207. HOUSING GUARANTY PROGRAM

This section authorizes an increase in the limit on the total principal amount of loans for which guarantees may be issued under sections 221 and 222 of the Foreign Assistance Act of 1961. This increase would be \$40,000,000 for the fiscal year 1985.

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SECTION 208. ADMINISTRATION OF JUSTICE

In accordance with the recommendations of the Bipartisan Commission that the United States help strengthen Central American judicial systems and that Congress consider authorizing the training and support of law enforcement agencies under carefully defined conditions, this section would authorize in any fiscal year the furnishing of not more than \$20,000,000 of the funds appropriated for economic assistance programs in order to strengthen the administration of justice in Central American countries and the countries of the Caribbean. These projects would include activities for judges, prosecutors, and criminal investigation and law enforcement (including corrections) agencies.

SECTION 209. TRADE CREDIT INSURANCE PROGRAM

This section authorizes Economic Support Fund monies to be made available for payments by the Agency for International Development to discharge liabilities under certain guarantees and insurance issued by the Export-Import Bank. Such guarantees and insurance shall cover the risk of loss or non-payment under certain short-term trade credits used to finance goods and services for use by the private sector in Central American countries. These guarantees and insurance will not constitute loans made by the United States government to a foreign country.

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SECTION 210. LAND REFORM PROGRAMS

This section amends section 620(g) of the Foreign Assistance Act of 1961 to authorize the President to make available to governments assistance to compensate their nationals in accordance with a land reform program, if the President determines that monetary assistance for such land reform program will further the national interests of the United States.

SECTION 211. CENTRAL AMERICAN DEVELOPMENT ORGANIZATION

In furtherance of the recommendations of the Bipartisan Commission, this section states the finding of Congress that participation by Central American countries in an effective forum for dialogue on and the continuous review and advancement of Central America's political, economic and social development would foster cooperation between the United States and Central American countries in furthering the purposes of this Act. This section further states the sense of Congress that the President should enter into negotiations with representatives of Central American countries receiving assistance under the Act to establish a Central American Development Organization, based upon principles stated in the section. In addition, this section authorizes the President to participate in such an organization (with the Administrator of the Agency for International Development as chairman).

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It is not the intention that this organization be established as a bureaucratic entity in competition with bilateral and multilateral donor organizations. The organization should be composed of public and private sector representatives from participating countries and should draw on the experience of the International Labor Organization with representatives from both the business and labor communities. The number of professional staff of the organization should be kept to a minimum.

SECTION 212. ECONOMIC ASSISTANCE

This section authorizes \$1,200,000,000 for each of the fiscal years 1986 through 1989 for the purpose of furnishing non-military assistance for Central American countries. The President would be authorized to transfer the funds made available pursuant to this section for obligation in accordance with the authorities of part I of the Foreign Assistance Act of 1961 (including the Economic Support Fund), the Peace Corps Act, the Migration and Refugee Assistance Act of 1962, the United States Information and Educational Exchange Act of 1948, the Mutual Educational and Cultural Exchange Act of 1961, the National Endowment for Democracy Act, and the State Department Basic Authorities Act of 1956. In addition, this section authorizes an increase of \$40,000,000 in the limit of the total principal amount of loans for which housing guarantees may be issued under sections 221 and 222 of the Foreign Assistance Act

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of 1961 for each of the fiscal years 1986 through 1989. Finally, this section authorizes for the fiscal year 1986 \$200,000,000 of loan principal for guarantees or insurance under section 224 of the Foreign Assistance Act of 1961 for Central American countries.

TITLE III - MILITARY ASSISTANCE, SALES AND RELATED PROGRAMS

SECTION 301. FINDINGS

This section states the finding of Congress that the restoration of peace in Central America is essential to economic and humanitarian progress in that region and that restoring peace and stability will require a combination of social and political reforms, economic advances, diplomatic efforts, and measures to enhance security, in accordance with certain principles identified in the section.

SECTION 302. MILITARY ASSISTANCE

This section authorizes for the Military Assistance program \$259,050,000 for the fiscal year 1984 and \$222,000,000 for the fiscal year 1985. This section also provides that the amounts appropriated pursuant to this section are authorized to remain available until expended.

SECTION 303. MILITARY EDUCATION AND TRAINING

This section authorizes for the International Military Education and Training program \$3,900,000 for the fiscal year 1985. This section also provides that the amounts appropriated pursuant to this section are authorized to remain available until expended.

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SECTION 304. FOREIGN MILITARY SALES FINANCING

This section authorizes \$30,000,000 for the fiscal year 1985 to carry out the purposes of section 23 of the Arms Export Control Act. This section also provides that the amounts appropriated pursuant to this section are authorized to remain available until expended.

SECTION 305. REPORTING REQUIREMENT

This section requires semiannual reports to Congress describing the policies of the Government of El Salvador for achieving political development, economic development and conditions of security. In the report, the President is to include a detailed assessment of the strengths and weaknesses of such policies in meeting the objectives which United States policy is designed to support, including the specific goals of free elections, freedom of association, dialogue and negotiations to achieve peace, the establishment of the rule of law and an effective judicial system, the curtailment of extremist violence by both the left and the right as well as vigorous action to prosecute those guilty of crimes. The report is also to review other factors contributing to the political, economic and security situation in that country. Finally, the President shall ensure that assistance authorized by the Act for military programs is provided to the Government of El Salvador in a manner which fosters progress of that government towards the objectives of political development,

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economic development and security, in accordance with the recommendations of the Bipartisan Commission.

TITLE IV - MISCELLANEOUS PROVISIONS

SECTION 401. DEFINITIONS

This section states that the term "Central American countries" shall be deemed to include, for the purposes of this Act and the amendments this Act makes to the Foreign Assistance Act of 1961, Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama and regional programs which benefit such countries, such as regional training programs.

SECTION 402. TRANSFER AUTHORITY

This section authorizes the President to transfer in each of the fiscal years 1984 and 1985 up to a total of \$50,000,000 from accounts authorized by this Act to non-military accounts authorized by this Act, if he determines it to be necessary for the purposes of this Act. This authority is in addition to that available pursuant to sections 109 and 610 of the Foreign Assistance Act of 1961.

SECTION 403. COORDINATION

This section states that, under the direction of the President, the Secretary of State shall be responsible for the continuous supervision and general direction of programs undertaken to carry out the purposes of this Act.

Economic

CENTRAL AMERICA

PROGRAM SUMMARY (In thousands of dollars)								
Fiscal Year	Total	Agriculture, Rural Development and Nutrition	Population Planning	Health	Education and Human Resources Development	Selected Development Activities	Other Programs	
							ESF	Other
1983								
Loans	264,247	75,000	--	25,000	--	15,697	148,550	--
Grants	270,560	19,445	6,660	2,195	5,636	12,079	224,450	95
Total	534,807	94,445	6,660	27,195	5,636	27,776	373,000	95 ^{a/}
1984								
Loans	148,681	49,000	--	9,655	2,000	12,026	76,000	--
Grants	198,190	21,337	4,819	3,820	4,565	9,649	154,000	--
Suppl	363,500	10,000	5,000	18,000	10,000	30,000	290,500	--
Total	710,371	80,337	9,819	31,475	16,565	51,675	520,500	--
1985								
Loans	55,292	25,000	--	10,342	--	13,950	6,000	--
Grants	858,108	44,800	15,000	29,658	64,000	70,000	634,600	--
Total	913,400	69,800	15,000	40,000	64,000	84,000	640,600	--

a. Disaster Assistance Funds

FY 1985 PROGRAM HIGHLIGHTS	
<ul style="list-style-type: none"> - A.I.D.'s Central American program concentrates on four fundamental elements: economic stabilization, creation of a basis for long-term growth, promotion of equity, and strengthened democratic institutions and respect for human rights. - In FY 1985, the request consists of: \$640.6 million of ESF, \$272.8 million of DA, \$120 million in P.L. 480 commodities, \$77 million of other agency programs and Operating Expenses, and \$600 million in guaranty authority to support private lending to the region. - In FY 1984, the supplemental request for Central America includes: \$290.5 million of ESF, \$73 million of DA, \$25 million of P.L. 480 commodities, and \$12 million in other agency programs and increased Operating Expenses. 	

AN ECONOMIC ASSISTANCE PROGRAM FOR CENTRAL AMERICA

INTRODUCTION

Central America is in crisis. As the National Bipartisan Commission on Central America has documented, the economic, political and social turmoil of the region poses a serious threat to U.S. national interests. Immediate action is essential. This request embodies an action program to attack the fundamental economic, social and political problems of the region identified by the Bipartisan Commission. A separate request has been prepared to address the military and security issues facing the United States in the region. This request proposes a four-pronged program of stabilization, growth, equity and democratization measures to address the underlying problems identified by the Bipartisan Commission. Because aid alone cannot produce development, the assistance proposed here would be conditioned on demonstrations by the governments of their commitment and ability to undertake fundamental economic and social reforms.

THE REGION'S PROBLEMS

Economic and social development has been made most difficult by the presence of military conflict within the Central American region. Even were this conflict to disappear, however, the region would still face four severe, long-term, and potentially intractable problems: economic instability, poor economic growth, economic and social inequity, and weak political and legal systems. Each is described briefly below.

Economic Instability. All countries of the region are reeling from the economic and political shocks of the past several years. The combination of the 1979-1980 oil price increases and the commodity price declines between 1980 and 1983 opened up a gap of \$1.5 billion in the region's balance of payments, to which most governments responded by excessive borrowing rather than adjustment. The political turmoil resulting from the establishment of a Marxist government in Nicaragua and from internal strife in El Salvador exacerbated this economic problem, leading to cutoffs of commercial credit, capital flight, and a dropoff in foreign investment. The financial difficulties left the countries unable to make payments for their Central American trade, resulting in a collapse of the intraregional payments system and a sharp contraction of intraregional trade. In addition, regional governments face difficult fiscal situations resulting from reduced revenue due to lower production and trade and inadequate tax collection and to increased spending arising from an expansion of government programs and of military spending due to insurgency and threats from abroad.

Poor Growth Prospects. The economic problems facing Central America go beyond the relatively recent instability mentioned above. Sustained economic growth is the only mechanism over the long haul that can fundamentally change the reality of widespread poverty in the region, yet prospects are poor for the traditional agricultural sectors, such as coffee, sugar and bananas, which in the past have fueled growth spurts. Opportunities for import substitution

industries have been exhausted. Unless some dynamic growth can be generated by structural change that allows diversification of production and exports, productive employment opportunities for the region's rapidly growing labor force will not be available, and the region will be unable to overcome its economic backwardness.

Economic and Social Inequity. A third serious problem facing three of the countries -- Guatemala, El Salvador and Nicaragua -- is the limited capacity or willingness of government institutions to address the issues that are at the core of the development process. Unless the governments of these countries come to grips with basic equity, social justice and participation issues in a manner that addresses the concerns of all sectors of their societies, their political stability -- and therefore that of the entire region -- will continue to be threatened. Honduras, the poorest country in the region, has so far managed to avoid the divisive internal conflicts of the three countries mentioned above, but rapid improvement in the quality of life for all sectors of the population is an important requirement for preventing the emergence of such a situation.

Weak Political and Legal Institutions. Related to the lack of equity in some of the countries is the lack of strong legal systems, the existence of unrepresentative political systems and an overall lack of concern for basic human rights. Costa Rica demonstrates that democratic political systems are indeed possible in the region and that they can play a crucial role in maintaining political stability and promoting broad development goals. Representative systems cannot be built overnight, nor can they be imposed from outside. But outside assistance can support indigenous efforts in this area.

MULTIYEAR GOALS AND FUNDING REQUEST

The funding requested here includes two elements: authorization of \$8.3 billion in economic assistance and guarantees for Central America, to be available over the next six years; and a supplemental appropriation of \$400 million in FY 1984 and a request for a \$1,120 million appropriation in FY 1985, representing the first phase of implementation of this program. In the face of large federal deficits and urgent domestic priorities, such a request requires compelling justification. We believe that the report of the Bipartisan Commission provides this. The situation is so alarming, the Commission concluded, that "whatever the short-term costs of acting now, they are far less than the long-term costs of not acting now." If the proposed assistance can capture the imagination and energies of the people of Central America, we believe that it can support a dramatic turnaround in the development situation of the region and eliminate a potentially serious threat to U.S. national security.

Our major goals for the five-year program are the following:

- an end to the downward spiral in production by 1985;
- achievement of an economic growth rate of at least 6% per year in the

region within six years, producing more than 250,000 jobs annually through export-led growth;

- agricultural production increasing by 4% per year by 1989, generating 80,000 jobs per year and increasing both food availability and agroindustrial exports;
- substantially greater participation of all sectors of the Central American population in the benefits of economic growth, including:
 - an increase in primary school enrollments to 95% of the school-aged population by 1989 from the current 84%;
 - a reduction in the rate of primary-level grade repeaters by 50% in all countries, and an increase in the primary level completion rates from 40% to 80% in Guatemala, Honduras and El Salvador, and from 80% to 95% in Costa Rica, Panama and Belize by 1990;
 - a reduction in infant mortality from the current rate of 65 per thousand to 55 per thousand by 1989;
 - provision of modern family planning services to almost 600,000 couples, increasing contraceptive usage by 50% by 1989 and reducing birth rates by 1% each year;
 - an increase of 25% in the rate of construction of low-income housing; and
 - a 25% increase in the coverage of water and sewerage services by 1989.
- a strengthening of democratic institutions in countries where they already exist, and achieving substantial progress toward participatory democracy and legal systems that respect individual human rights in the others.

As proposed by the Bipartisan Commission, the assistance to Central America would be provided as part of a multiyear and collaborative approach in which our aid would be closely tied to commitments for economic and social reforms by the recipient governments. Our procedures for implementation will reflect a greater emphasis on more flexible instruments for assistance, greater collaboration with governments and private groups in the region, and streamlined administration. A Central American Development Organization (CADO), consisting of highly experienced and respected representatives of Central America and the United States, will monitor and assess country performance against both economic and political goals. This approach follows the conclusion by the Bipartisan Commission that an integrated program attacking the four major problems of the area -- economic instability, poor economic growth, poor equity performance, and weak political and legal systems -- is essential to resolution of the region's problems.

We propose that the full amount necessary for this entire program be authorized in FY 1984 to provide our friends with the assurance necessary to take difficult actions to meet the crisis. The supplemental appropriation* we are requesting in FY 1984 includes:

*This is in addition to the following being amounts financed for Central America under the FY 1984 Continuing Resolution: \$230 million in ESF; \$117 million in DA; and \$83 million under P.L. 480.

- \$290 million of Economic Support Funds (ESF);
- \$73 million in Development Assistance (DA);
- \$25 million in P.L. 480 commodities; and
- \$12 million in other agency programs and increased operating expenses.

In FY 1985, we are seeking appropriation of:

- \$641 million of ESF;
- \$273 million in DA;
- \$120 million in P.L. 480 commodities;
- \$77 million for other programs and operating expenses; and
- \$600 million in guaranty authority to support private lending to the region.

In each case, we request that the ESF and DA appropriation be made available until expended to allow more effective application of conditionality to these programs.

PROGRAM STRATEGY

Our Central American program strategy concentrates on four fundamental elements: economic stabilization, creation of a basis for long-term growth, promotion of equity, and strengthened democratic institutions and respect for human rights.

A. Stabilization

The immediate priority will be to achieve economic stabilization by eliminating unfinanced balance of payments and fiscal gaps. While all Central American countries have reduced import levels, increased assistance will be needed if further declines in imports -- and therefore in incomes -- are to be avoided. We propose to provide large-scale balance-of-payments assistance, conditioned on steps by governments to increase exports and conserve on imports for consumption to restore external balance, and to correct fiscal imbalances through increased taxes and spending controls. To assure this we will seek to operate within the framework of International Monetary Fund (IMF) stabilization programs. If an IMF program is not feasible in particular circumstances, we shall establish our own performance targets for macroeconomic variables.

Both the time period required for economic stabilization and the level of resources required will depend significantly upon external events. At present, we expect this phase to require three to five years and \$3.1 billion in U.S. Government assistance. This will include \$2.5 billion in appropriated ESF, \$0.1 billion in P.L. 480 commodities, and \$0.5 billion in private trade credits guaranteed by the U.S. Government. The bulk of the funds will be provided bilaterally, but a portion will be channeled through Central American regional institutions to promote restoration of intraregional trade. The assistance will enable the region to increase imports of needed raw materials and capital goods to increase production and employment over the near term.

However, local-currency generations from this dollar assistance will be used in most cases to support other A.I.D. economic assistance goals, e.g., production credit, labor-intensive construction of economic infrastructure and the most pressing basic human needs in health, education and housing.

B. Laying the Basis for Long-Term Growth

The second element of our strategy -- distinct from the first, but pursued concurrently with it -- is to lay the basis for self-sustaining growth that will provide productive employment for the people of the region. Rapid growth in productive job opportunities is the key to promotion of self-sustaining economic growth and to steadily rising incomes. Our program for growth promotion through productive employment stresses four elements: reform of government economic policies, promotion of industry and agriculture, and creation of economic infrastructure.

We believe that our approach can restore relatively rapid economic growth to the region (6% real growth per year) within five years. We propose funding of \$3.9 billion for this purpose, including \$1.7 billion in appropriated funds (\$0.9 billion ESF, \$0.4 billion DA, and \$0.4 billion P.L. 480), \$0.8 billion in local currency counterpart generations from economic stabilization assistance, and up to \$1.3 billion in guarantees and insurance. The latter will include trade credits provided through A.I.D. and the Export-Import Bank and increased insurance coverage by the Overseas Private Investment Corporation.

1. Policy reform. Increased employment opportunities are essential to achievement of long-term growth and equity goals. In the past, import-substitution policies have often discriminated against labor-using activities by making machinery artificially cheap. Such practices include interest rates that are negative in real terms, overvalued exchange rates, and very high tariff walls that encourage production of capital-intensive commodities. Eliminating such approaches would encourage more labor-intensive production methods and stimulate increased exports of both traditional and new products.

The experience in the developing countries over the past two decades suggests that this policy approach offers the best prospect for creating the large-scale employment needed by the region's rapidly growing labor force while permitting steady growth in productivity and per capita incomes. In turn, this rapid growth in incomes and exports should permit an equally rapid growth in the imports of raw materials and other products needed to provide the productive employment that can support a higher living standard for the people of the region.

2. Industrial Employment. If the people of the region are to have the employment opportunities needed to increase their incomes substantially the industrial sector will need to play a major role. Over the medium term only the export market is likely to provide the market potential needed to spur rapid industrial growth. Exports of nontraditional products from the region have in fact been growing rapidly over the past two decades (with annual

growth of manufactured exports to the United States averaging about 30% per year), but they are still a small share of total production or exports. The implementation of the Caribbean Basin Initiative (CBI), providing duty-free access to the U.S. market over the next 12 years, should provide a favorable environment for such an export strategy.

U.S. assistance will directly assist in financing this effort through such activities as providing credit for imports of machinery for industry and technical assistance in investment promotion, product development and export marketing, and improved production methods. Increased activity by the International Executive Service Corps will be one vehicle for this. We expect the private sector to be willing to undertake much of the necessary financing itself where policies provide the proper incentives, while our assistance will be aimed at encouraging such policies.

3. Agricultural Production. Half of the region's labor force still works in agriculture. Experience indicates that small farmers are the most productive users of land resources, yet they lack adequate access in several of the countries of the region to credit, modern technology and marketing services that would unleash this capacity. We believe that agricultural production can be increasing by 4% per year by the end of the five-year period. This would increase food availability internally and generate exports of nontraditional agricultural and agroindustrial products, besides providing about 80,000 new jobs per year. Our program includes credit for small farmers and dissemination of improved technology both directly and through promotion of private and public mechanisms, including cooperatives. Our policy dialogue will focus on price and marketing reforms to provide better incentives to farmers.

4. Economic Infrastructure. Our strategy also proposes substantial funding for economic infrastructure. In the relatively less-developed countries of the region, provision of basic economic infrastructure -- roads, communications, urban services -- can be important in facilitating increased production of manufactured and agroindustrial products. Moreover, financing of such infrastructure is likely to increase economic activity and, by using labor-intensive techniques, increase employment relatively quickly. Of course, the multilateral banks will continue to be the main source of financing for infrastructure projects.

C. Equity and Broad Participation in Development

The third element of the strategy -- to be pursued in those countries where the restoration of satisfactory economic growth is not an adequate answer to the development problem -- is a longer term development program aimed at improving the quality of life of less advantaged groups. Access to employment and other sources of productivity growth, such as modern agricultural technology and improved inputs, have already been mentioned above because they provide a means of achieving equity goals in a manner that also stimulates rapid economic growth.

Altogether, we propose a total of \$3.1 billion in assistance in direct support for our equity goals. This figure includes \$1.7 billion in dollar funds appropriated for this purpose (including \$1.4 billion in DA, \$0.1 billion in P.L. 480 Title II commodities, and \$0.2 billion in programs administered by the Peace Corps and the State Department), \$0.2 billion in Housing Guaranty funds, and \$1.2 billion in local currency counterpart funds from ESF and P.L. 480 assistance provided for balance-of-payments support. In addition, the \$3.9 billion provided to support long-term growth could be included in this category because it supports the productive jobs and increased incomes that are the most powerful vehicle in the long term for meeting basic needs.

The principal direct equity-oriented measures being supported include the following:

1. Education. Illiteracy is still a serious problem in most of the countries of the region, and limited access to primary education, particularly in rural areas, is creating a new generation of illiterates. We propose a major program of support for educational activities in the region, including primary education, substantial expansion of skills training and vocational education, and higher education in the United States. At the primary level, we propose to expand access to the system to nearly 100% of the school-aged population and to increase the relevance and quality of the education to reduce grade repetition and dropouts. Major program elements will include school construction, teacher training, and production and distribution of textbooks and educational materials. The efforts in the literacy field will include both support for indigenous public education institutions and for use of Peace Corps volunteers to supplement their efforts.

We also propose to provide 10,000 scholarships over the next five years for study in the United States. We have found that those Latin American government officials who are most effective in promoting development in the region and in promoting democratic values are quite often the product of past U.S. Government-financed participant training. Moreover, scholarships to communist-bloc countries are apparently available in much greater number than those for U.S. study. In some countries, this had led to cadres of bloc-trained professionals in government ministries. Our scholarship assistance will address this challenge, in addition to augmenting the number of high-level professionals necessary for the accelerated development effort and to increasing the understanding by Central Americans of U. S. values. The scholarship program will be administered by A.I.D. and the United States Information Agency (U.S.I.A.).

2. Health and Nutrition. We will support increased action to improve health conditions, particularly in rural areas, where government programs are clearly inadequate at present. Increased efforts to control malaria and other vector-borne diseases, dissemination of oral rehydration therapy, and training of nurses and other health workers will be major elements of our program. We will address nutrition issues through an expansion of our technical assistance and education efforts, as well as through an expansion of our food aid programs. The Peace Corps will cooperate in implementing our health and nutrition programs, and U.S.I.A. will help in translating and disseminating educational materials.

3. Family Planning. Despite a significant reduction in birth rates in Central America over the past decade, the rate of population growth in Central America remains around 3% per year. Such high growth rates strain countries' capacities to provide adequate nutrition, education, health care, and employment opportunities for their populations. In addition, increased population pressures on limited natural resources have resulted in serious soil erosion and other environmental degradation in many areas. Access to contraceptives and to accurate family planning information is essential if poorer people are to have the opportunity to limit family size. Studies have shown that lack of information is an obstacle to increased contraceptive use, and that young children in large poor families in the region tend also to suffer from malnutrition. We will continue our programs in this area, with particular emphasis on working with private institutions.

4. Access to Land. Improved access to land may be the most rapid way to provide opportunity to poor groups in some of the countries of the region. Colonization of new lands can provide part of the solution, but some form of land reform may be a necessary element of a program in this sector. This would be the case particularly in Guatemala where access to land in the central highlands, where the bulk of the Indian population lives, is a severe constraint to improved living standards. Our program will support efforts to increase land availability for poor rural families through support for colonization, through legal reforms needed to increase security of land titles, and through long-term financing for land purchase.

5. Shelter. Much of the population of the isthmus lives in substandard housing which lacks water, sewerage and electricity services. Although remedying this problem will require both decades and massive financial resources, we can make progress through support for institutional improvements in housing finance mechanisms and by innovative programs such as "sites and services" projects that can mobilize the labor resources of beneficiary families at low cost. Our Housing Guaranty program will be used to channel private funds toward the solution of the severe shortage of low- and moderate-income housing while it generates substantial employment.

6. Refugees and Displaced Persons. The tragedy of forced dislocation due to political violence has exacerbated the poverty of many Central Americans. In some cases this has led to the spillover of migrants to other countries, including the United States. In El Salvador and Guatemala it has resulted in the internal dislocation of hundreds of thousands of people now living in deprived circumstances. We propose to expand our program of assistance for displaced persons to meet their cash income, health, nutritional, and educational needs in the near term and to assist in relocation or return to their homes as conditions permit. The State Department will be responsible for administering the refugee program, while A.I.D. will assist the displaced persons.

D. Democratic Institutions and Human Rights

The ultimate purpose of economic development is increased human welfare. If we succeed in generating economic growth in the region without broadening the

respect for basic human values we not only will fail to achieve our purpose but will be sowing the seeds of a future crisis when internal conflict becomes violent revolution. It is important to realize, however, that we cannot determine the path chosen by the people of the region. But we can provide our moral and financial support to those countries which choose democratic processes and which respect human rights. As a key element in providing the economic assistance under this program, we propose to take into account the situation in each country that responds to commitments regarding free elections, independence of the judiciary system, and respect for individual rights.

We also plan specific activities in several areas to support this element of our strategy. First, we will support strengthening of the administration of justice through technical assistance, training and material support for the courts, criminal investigative agencies, public prosecutors and defenders, justice ministries, law schools and bar associations. Second, we will provide assistance to improve the administration of elections. Finally, as discussed in the section dealing with education, broader understanding of democratic values will be pursued through scholarships and educational materials on democracy and democratic institutions provided by the U.S.I.A.

Since funding for each of the countries in the region will be affected by performance with respect to democracy and respect for human rights, the entire \$8.3 billion we propose for the region will support our objectives in this area. In specific projects, we propose \$340 million in funding for democracy and human rights initiatives.

IMPLEMENTATION CONSIDERATIONS

New Approaches. The emphasis on working closely with host governments to assure that appropriate policies are adopted, both in the economic sphere and with respect to political and human rights, requires that our assistance program include two departures from past practices.

First, we intend to encourage the establishment of an organization representing the public and private (including business and labor) sectors of participating Central American countries to serve as a forum for a frank and open dialogue on Central American political, economic and social development. CADO would not, as we envision it, be a separate bureaucracy but would meet periodically and contain a minimum number of staff necessary to achieve the purposes set out below. CADO would be structured so as to have labor representation, with the expectation that the experience with the Triparte model of the International Labor Organization will be heavily drawn on. While the specific makeup and functions of CADO will need to be developed in consultation with the Central Americans, our current view is that it should:

- establish goals and targets for economic, political and social development;
- recommend country performance criteria;
- evaluate external assistance needs, and recommend resource mobilization actions;

- measure country performance against goals and targets, and recommend corrective action where countries fall short; and
- be influential in affecting the level and structure of U.S. bilateral assistance for Central America.

Second, we believe that greater flexibility is needed with respect to use of the funds than has existed in the past. The requirement that all funds appropriated in each fiscal year be obligated in the same year can require us to make difficult choices between approving programs where a recipient government has not yet taken needed steps or of losing the funds entirely. The earmarking of funds by country has reduced our ability to encourage governments to take necessary policy reforms. We therefore request that the Congress provide two-year appropriations for this program and that appropriations not be made with country-level earmarkings.

Third, we seek to increase the role played in the development process by private voluntary organizations to the maximum extent feasible. In implementing the CBI we have developed closer relationships with these organizations than previously and have provided substantial funding to them. We intend to continue this effort.

Absorptive Capacity. The large-scale program proposed raises a question of the capacity of the region to absorb such an increase. We have concluded that such capacity does indeed exist. First, the annual level of resources provided under the program, at about 5% of the total product of the region, is lower than that provided by donors in a number of other cases. Second, the countries of the region are now operating at very low levels of production, and considerable excess capacity exists in the private sector. As our aid helps restore production, we will be providing the institution-building help and technical assistance that will prevent the emergence of bottlenecks in the future. Third, most of our resources will flow through private-sector agencies rather than governments.

Support Costs. The implementation of the proposed Central American program will require an increase in support costs for A.I.D. This includes additional direct-hire employees, plus increased operating expenses associated with the program. We propose additional funding of \$2.5 million in FY 1984 and \$6 million in FY 1985 to support this program.

COUNTRY STRATEGIES

Descriptions of the proposed program for each of the Central American countries are being provided separately. Briefly described below are the major elements of those country strategies.

Belize. For its per capita income level, Belize has high levels of education and health standards and a democratic political system. The economy has a good economic growth record and is relatively well-managed. The major obstacle is lack of infrastructure, which is made more serious by the fact that the country's small population base limits the economic returns to such investment. Our strategy emphasizes stabilization assistance over the near

term and support for investment in export-related agriculture and industry over the longer term. The Government of Belize will need to control the size of the public sector and to improve its efficiency. The main challenge, however, will be to generate private-sector entrepreneurship and finances to develop the country's considerable natural resource base. We propose supplemental funding of \$10 million for Belize for FY 1984 and a total request of \$10 million for FY 1985.

Costa Rica. The country has democratic institutions and high quality of life in relation to its per capita income. It grew rapidly until the late 1970s when the combination of failure to adjust to the oil price increase, rapid growth of the public sector and extremely rapid growth of foreign debt created an untenable economic situation. The major challenges facing Costa Rica at present are how to shrink the size of the public sector and how to extricate itself from its oppressive external debt. The latter can be expected to be a major limiting factor in economic growth possibilities for at least the remainder of the decade.

Our assistance strategy emphasizes government policies aimed at promoting production for export to world markets. This will require the government to maintain adequate incentives for exporters, particularly through the exchange rate. In addition, shrinking the size of the public sector through divestment and increased efficiency are high priorities. We propose supplemental funding of \$75 million in FY 1984 and total assistance of \$208 million in FY 1985.

El Salvador. The development prospects in El Salvador are heavily dependent upon progress being made against the insurgency. Assuming that the guerrilla threat will gradually decline over the next several years, El Salvador should be able to reverse some of the dramatic economic decline relatively quickly. Nevertheless, reconstruction of economic infrastructure and establishment of basic services for the reformed agricultural sector will take a number of years. Given the relative abundance of low-cost labor in the country and its relative success in generating industrial exports until the rise of the insurgency, the country should be able to generate rapid growth in manufacturing exports.

Actions to increase the effective exchange rate for exporters and to resolve the uncertainty in the agricultural sector (by completion of the land reform and making required payments to former landholders) are the two most important steps that need to be addressed by the government at present. Over the longer term, expanding economic opportunity, meeting basic needs, increasing respect for human rights, and encouraging broad political participation are major challenges. We propose additional assistance of \$134 million for FY 1984 and a total program of \$341 million for FY 1985.

Guatemala. Over the past two decades, Guatemala has experienced a combination of satisfactory economic growth, limited political development, and poor performance on meeting basic needs, particularly for the indigenous groups of the central highlands. With a tradition of conservative economic management, the country's stabilization and debt problems are less severe than any of the other countries of the region except Belize, but its political and social problems may be the most intractable in the region.

Our strategy for the country proposes high levels of assistance aimed at addressing the basic social issues and providing substantial economic infrastructure, but conditioned upon a demonstration of commitment by the Guatemalan government to a resolution of the social and political conflicts within that society. Assuming such a commitment, we propose a supplemental request of \$20 million for FY 1984 and total assistance of \$96 million for FY 1985.

Honduras. Despite a considerable natural resource base, Honduras is the poorest country in the region. The primary problems are the low level of human resources and the weakness of government institutions. Political institutions are relatively well-developed, however, and the country has not experienced the social and political divisions that characterize El Salvador and Guatemala. Our strategy includes substantial support for stabilization efforts in the near term; heavy investment in economic infrastructure, particularly in the agricultural sector, and long-term institution-building, particularly in education. The government will need to increase substantially its capacity to make decisions and to implement projects if Honduras is to effectively utilize increased resources. We propose an increase in the assistance level of \$84.5 million in FY 1984 and a total funding level of \$139 million for FY 1985.

Nicaragua. During the 1960s and 1970s, Nicaragua's economic performance and its progress in spreading basic health and education were both about average for the region. A failure to establish political alternatives to the Somoza family, however, led to a polarization of society and to the Sandinista takeover in 1979. The current government has emphasized government programs in education and health. It has also dramatically increased the role of government in the economy through both direct ownership and through replacement of market forces by government decisions in many areas, particularly prices and foreign trade. As a consequence, severe economic distortions have been created that make sustained economic growth unlikely without massive external assistance. Because of both the economic and political factors, we have not programmed any assistance to Nicaragua. Should government policies dramatically change, however, assistance to rebuild the country's economy might be justified.

Panama. Panama has a history of relatively rapid economic growth combined with a broad spread of the benefits of growth. Its most serious economic problem, urban unemployment, is due in significant part to government policies that limit the flexibility of the private sector. The very large presence of the U.S. Government in Panama through the Canal and U.S. military installations has probably contributed to the unemployment problem by creating a high-wage economy in the midst of a developing country. The current government has undertaken major policy adjustments aimed at restoring private-sector incentives and confidence. Our assistance would strengthen the capacity of the government to carry out such reforms. It would be based on continued progress in this area, including elimination of inappropriate pricing policies in agriculture and reform of labor legislation. We propose increased assistance of \$34.2 million in FY 1984 and a request of \$40 million in FY 1985.

Central American Regional Programs. In addition to bilateral programs in each of the countries of the region, we propose to emphasize regional approaches in several areas. First, we are encouraging regionwide discussion of goals and performance. CADO will provide the mechanism for this. Under the umbrella of CADO, we will support operation of a strong consultative group of the Central American governments and all major donors to the region to provide a forum for discussion of economic policy issues.

A second area of regional activity will be support for the strengthening of regional institutions. As recommended by the Bipartisan Commission, we will consider providing further financial support to the Central American Bank for Economic Integration, which supports investment projects in the region. We propose to carry out our activities to support democratization and respect for human rights on a regionwide basis. We are also examining the feasibility of a regional venture capital company to spur the capitalization of dynamic indigenous firms. We also intend to provide trade credit guarantees on a regional basis.

Third, we seek to reverse the decline of the Central American Common Market (CACM). Restoration of trade can lead to a spurt in regional growth. Moreover, because of the very small size of the individual countries, increased regional specialization may increase the region's capacity to produce for world markets. With limited U.S. resources trade can probably be re-established without any direct support being provided to Nicaragua. Over the longer term our strategy would seek to promote the reduction in the external tariffs applied by the CACM countries to increase competitiveness in world markets. We propose funding of \$30.8 million for FY 1984 and \$199 million for FY 1985 to support programs of a regional nature.

Attached are two tables presenting the total resources being requested for the proposed program.

Table I

FINANCIAL SUMMARY

ECONOMIC ASSISTANCE TO CENTRAL AMERICA
(millions of dollars)

<u>PURPOSE</u>	<u>Supplemental FY 1984</u>	<u>FY 1985</u>	<u>FY 1986- FY 1989</u>	<u>TOTAL</u>
<u>Stabilization</u>				
ESF	272	541	1,644	2,457
P.L. 480	25	103	--	128
Guarantees	--	470	--	470
Sub-total	297	1,114	1,644	3,055
<u>Growth</u>				
ESF	10	80	789	879
DA	8	87	327	422
P.L. 480	--	--	410	410
Guarantees	--	90	1,240	1,330
Counterpart*	(100)	(220)	(520)	(840)
Sub-total	118	477	3,286	3,881
<u>Equity</u>				
DA	66	196	1,096	1,361
P.L. 480, II	--	17	70	87
Guarantees	--	40	160	200
Counterpart*	(100)	(220)	(880)	(1,200)
Peace Corps	2	18	94	114
State, Refugees	--	15	78	93
Sub-total	168	506	2,381	3,055
<u>Democracy</u>				
ESF	8	20	85	113
U. S. I. A.	7	36	179	222
CADO	--	1	4	5
Sub-total	15	57	268	340
<u>Operating Expenses</u>	2	6	26	34
 TOTAL*	 400	 1,720	 6,205	 8,325

*Counterpart figures are local currency generations from ESF or P.L. 480 balance-of-payments financing for A.I.D.-supported activities in the region. Since they are programmed for development purposes, they are included in sector sub-totals but not in the overall total.

ECONOMIC AND SOCIAL DATA
REGIONAL SUMMARY

REGION: CENTRAL AMERICA

COUNTRY	ECONOMY	EDUCATION	POPULATION				HEALTH				
	GNP PER CAPITA (DOLLARS)	LITERACY RATE (PERCENT)	TOTAL (THOUSANDS)	ANNUAL GROWTH RATE (PERCENT)	DENSITY (PERSONS / SQUARE MILE) POP/AGR LAND	POP/TOTAL LAND	% IN URBAN AREAS	LABOR FORCE IN AGRICULTURE (PERCENT)	PEOPLE PER DOCTOR	LIFE EXPECTANCY (YEARS)	INFANT DEATHS PER 1,000 BIRTHS
DEVELOPMENT ASSISTANCE RECIPIENTS											
BELIZE	1,080	91	154	2.1	294	16	49	28	2,935	-	56
COSTA RICA	1,430	88	2,624	2.6	273	110	44	29	1,390	71.0	18
EL SALVADOR	650	62	4,685	2.6	865	543	42	50	3,599	64.4	71
GUATEMALA	1,140	46	7,714	3.1	679	168	36	55	1,833	59.2	66
HONDURAS	600	57	4,276	3.4	179	82	37	63	3,294	59.2	78
PANAMA	1,910	85	2,058	2.1	268	60	56	27	1,223	71.0	23
DA SUMMARY	1,034	61	21,511	2.9	316	55	40	49	1,997	63.0	59

ECONOMIC AND SOCIAL DATA
REGIONAL SUMMARY

REGION: CENTRAL AMERICA

COUNTRY	ECONOMY	EDUCATION	POPULATION					HEALTH			
	GNP PER CAPITA (DOLLARS)	LITERACY RATE (PERCENT)	TOTAL (THOUSANDS)	ANNUAL GROWTH RATE (PERCENT)	DENSITY (PERSONS / SQUARE MILE)		% IN URBAN AREAS	LABOR FORCE IN AGRICULTURE (PERCENT)	PEOPLE PER DOCTOR	LIFE EXPECTANCY (YEARS)	INFANT DEATHS PER 1,000 BIRTHS
					POP/AGR LAND	POP/TOTAL LAND					
ECONOMIC SUPPORT FUND RECIPIENTS											
BELIZE	1,080	91	154	2.1	294	16	49	28	2,935	-	56
COSTA RICA	1,430	88	2,624	2.6	273	110	44	29	1,390	71.0	18
EL SALVADOR	650	62	4,685	2.6	865	543	42	50	3,599	64.4	71
GUATEMALA	1,140	46	7,714	3.1	679	168	36	55	1,833	59.2	66
HONDURAS	600	57	4,276	3.4	179	82	37	63	3,294	59.2	78
PANAMA	1,910	85	2,058	2.1	268	60	56	27	1,223	71.0	23

ESF SUMMARY	1,034	61	21,511	2.9	316	55	40	49	1,997	63.0	59

REGION SUMMARY	1,034	61	21,511	2.9	316	55	40	49	1,997	63.0	59

ECONOMIC ASSISTANCE TO CENTRAL AMERICA: FY 1983-85
(Millions of Dollars)

	<u>FY83 Actual</u>	<u>FY84 Continuing Resolution</u>	<u>FY84 Supplemental Request</u>	<u>FY84 Total</u>	<u>FY 85 Request</u>
Belize					
DA	6.7	4.0	-	4.0	6.0
ESF	10.0	-	10.0	10.0	4.0
PL480	-	-	-	-	-
Total	<u>16.7</u>	<u>4.0</u>	<u>10.0</u>	<u>14.0</u>	<u>10.0</u>
Costa Rica					
DA	27.2	15.1	8.0	23.1	20.0
ESF	157.0	70.0	60.0	130.0	160.0
PL480	27.7	20.0	7.0	27.0	28.0
Total	<u>211.9</u>	<u>105.1</u>	<u>75.0</u>	<u>180.1</u>	<u>208.0</u>
El Salvador					
DA	58.8	41.3	30.0	71.3	80.0
ESF	140.0	120.0	90.0	210.0	210.0
PL480	46.7	37.3	14.0	51.3	51.1
Total	<u>245.5</u>	<u>198.6</u>	<u>134.0</u>	<u>332.6</u>	<u>341.1</u>
Guatemala					
DA	12.2	1.6	20.0	21.6	40.0
ESF	10.0	-	-	-	35.0
PL480	5.3	12.0	-	12.0	21.4
Total	<u>27.5</u>	<u>13.6</u>	<u>20.0</u>	<u>33.6</u>	<u>96.4</u>
Honduras					
DA	31.2	31.8	8.0	39.8	45.0
ESF	56.0	40.0	72.5	112.5	75.0
PL480	15.5	12.6	4.0	16.6	19.0
Total	<u>102.7</u>	<u>84.4</u>	<u>84.5</u>	<u>168.9</u>	<u>139.0</u>
Panama					
DA	6.2	11.0	4.2	15.2	19.8
ESF	-	-	30.0	30.0	20.0
PL480	1.0	1.3	-	1.3	0.5
Total	<u>7.2</u>	<u>12.3</u>	<u>34.2</u>	<u>46.5</u>	<u>40.3</u>
Regional Programs					
DA	19.4	12.1	2.8	14.9	62.0
ESF	-	-	28.0	28.0	136.6
Total	<u>19.4</u>	<u>12.1</u>	<u>30.8</u>	<u>42.9</u>	<u>198.6</u>
Sub-Totals					
DA	161.7	116.9	73.0	189.9	272.8
ESF	373.0	230.0	290.5	520.5	640.6
PL480	96.2	83.2	25.0	108.2	120.0
Misc. ¹	-	-	11.5	11.5	86.6
<u>GRAND TOTAL</u>	<u>630.9</u>	<u>430.1</u>	<u>400.0</u>	<u>830.1</u>	<u>1120.0²</u>

1/ Miscellaneous total includes:

	<u>FY84 Supplemental Total</u>	<u>FY84 Request</u>	<u>FY 85 Request</u>
Other Agencies,	9.0	9.0	70.6
Peace Corps	(2.0)	(2.0)	(18.2)
USIA	(7.0)	(7.0)	(36.4)
State/Refugees	-	-	(15.0)
State/ICC	-	-	(1.0)
AID Supplementary OE	2.5	2.5	6.0
HIG Reserve	-	-	10.0

2/ Grand Total for requested funds in FY 1985 does not include the following non-appropriated guarantees:

Housing Investment (HIG)	40.0
Trade	
Ex-Im Bank	150.0
AID	300.0
Expanded OPIC Insurance	20.0
CCC	<u>90.0</u>
<u>TOTAL</u>	<u>600.0</u>

2/1/84: Wang 6205E

Military

A MILITARY ASSISTANCE PROGRAM
FOR CENTRAL AMERICA

THE CRISIS IN CENTRAL AMERICA

Central America faces interlocking crises. They have been described by the National Bipartisan Commission on Central America; the implementing legislation proposes to untangle them and provide the resources for solutions.

None of these crises can be solved independently of the others. In terms of policy responses, however, they can be considered under three headings

- First, those problems stemming from indigenous causes. The roots of Central America's troubles lie in social inequity, unrepresentative politics, weak legal institutions, disrespect for human rights, and the other problems of societies in urgent need of reform.
- Second, those problems resulting from the international economic shocks of the past several years.
- Third, the challenges produced by externally-supported guerrilla insurgency. This, as the Bipartisan Commission says, "differs as much from indigenous revolts as it does from conventional wars."

The military assistance proposals described here address primarily the third of these interrelated challenges; the first two require separate and larger amounts of economic assistance. It must be stressed, however, that none of the proposals for Central America stand on their own. Social and economic problems cannot be solved by military means. But neither can any society, faced with a concerted effort to destroy its economy and its institutions, hope to prosper through social and economic programs unprotected by an adequate security force.

U.S. INTERESTS

The predominant interests of the United States in Central America involve security and human rights. Our economic interests are also of long standing but are not substantial. Our security interests have loomed large for American leaders

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and public since the building of the Panama Canal early in this century. The Bipartisan Commission concluded that Central America "critically involves our security interests" because it is a near neighbor. As the Cuban experience demonstrates, a foothold by the Soviet Union in the Western Hemisphere would become an armed camp and a springboard for subversion of neighboring states. In a strategically vital region, a regime controlled by elements hostile to the democratic system must be of deep concern -- not only to that regime's neighbors, but also to the United States.

"What gives the current situation its special urgency" -- writes the Bipartisan Commission -- "is the threat posed by the Sandinista regime in Nicaragua which is supported by massive Cuban military strength, backed by Soviet and other East Bloc weapons, guidance, and diplomacy, and integrated into the Cuban network of intelligence and subversion." The use of Nicaragua as a conduit for Cuban and Soviet arms and training is the factor that critically involves our own security interests. At the moment, the externally-backed insurgency is most threatening in El Salvador, but there is also an active guerrilla war in Guatemala. The Sandinista regime has sent Cuban-trained guerrillas into Honduras and sponsored terrorism in Costa Rica.

Many of the Nicaraguans who overthrew Somoza wished to establish democratic institutions. In 1979, the Sandinistas pledged to the OAS that they would establish a democratic, pluralistic, and non-aligned regime. The United States took a leading role in international efforts to assist Nicaragua.

But Marxist-Leninists had a monopoly of the military power in the new regime. The Carter Administration suspended its aid only when it became clear that the Sandinistas were channeling Cuban and Soviet assistance to the guerrillas in El Salvador.

Nicaragua's comandantes have publicly stated their intent to consolidate Marxism-Leninism. They have built a military establishment four times as large as Somoza's, disproportionate to those of neighboring states, and far beyond their legitimate defensive needs. There are at least 2,000 Cuban military advisers in Nicaragua, as well as several hundred from the Soviet Union, Eastern Europe, Libya, and the PLO. An estimated 15,000 tons of Soviet Bloc military equipment reached the Sandinista army in 1983. This is the factor which has internationalized the conflict.

OVERALL PROGRAM STRATEGY

Our response has some elements common to our military assistance programs in all six countries. These include (1) a strong emphasis on training; (2) insistence on counter-insurgency operations that respect human rights; (3) stress on small-unit organization and tactics; (4) the need for greater force mobility; and (5) the requirement for low-cost, low-technology arms and equipment.

Training

We regard training as the key to our military assistance strategy in the region. We recognize the need for more leadership training, particularly at the junior officer, cadet, and NCO levels. At the same time, there is a continuing need for technical training, as in the case of pilots, mechanics, and technicians. Large-scale training of entire units is required for some countries. The training is carried out at military installations in the U.S., at the Panama Canal Area Military Schools, at the Regional Military Training Center (RMTTC) in Honduras, and by U.S. Mobile Training Teams (MTTs) in-country.

Human Rights

Our training emphasizes the importance of humane counter-insurgency tactics and respect for human rights. As the Bipartisan Commission points out, however, "The present level of U.S. assistance to El Salvador is far too low to allow the armed forces of El Salvador to use these modern methods of counter-insurgency effectively." We have trained troops in the use of tactics which are sound and humane, but which they lack the resources to implement correctly.

Small-unit Organization and Tactics

In our training programs, particularly for countries faced with active guerrilla movements, we stress the need for small-unit organization and tactics as the most effective way to counter insurgency. Historically, the armed forces in the region have been grounded in the use of large-scale units more suitable for conventional than guerrilla warfare. We emphasize the need for highly-trained small units which can take the battle to the guerrillas rather than remaining in a defensive or static posture.

Force Mobility

There is an obvious premium on the need for force mobility to carry out a military strategy emphasizing small-unit organization and tactics. Taking the military initiative to seek out and engage guerrillas requires helicopters, fixed-wing aircraft, and vehicles, as well as the communications equipment needed for the effective use of intelligence and the exercise of command and control of dispersed forces.

Low-cost, Low Technology Arms and Equipment

We recognize that highly sophisticated, expensive arms and equipment are inappropriate for countering guerrillas and terrorists in unconventional warfare, and that we cannot burden the budgets of the Central American countries (or our own military assistance programs) with materiel which is too costly to acquire, maintain, and operate. We therefore eschew such materiel in favor of low-cost, low-technology arms and equipment. By so doing we also restrain any tendency towards intra-regional arms competition in sophisticated items -- while at the same time giving due weight to the conventional military threat posed by the Nicaraguan arms buildup.

FY 84 SUPPLEMENTAL/FY 85 REQUEST

Our proposed FY 84 Supplemental and FY 85 Military Assistance programs for Central America contain enough additional resources to break the existing stalemate between governments troops and guerrillas in El Salvador. The programs are, however, modest by global standards and in comparison to our economic aid.

Grant assistance is clearly necessary in view of the region-wide economic difficulties and the economic damage wrought by guerrillas. We should not add to the debt burdens of these countries by concentrating on cash purchases or high-interest loans. Therefore the entire FY 84 Supplemental and FY 85 programs are proposed on a concessional basis -- primarily as Military Assistance Program (MAP) and International Military Education and Training (IMET) grants, and secondarily as low-interest direct Foreign Military Sales (FMS) loans.

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The FY 84 Supplemental military assistance request for Central America totals \$259.05 million and consists entirely of MAP grants. The FY 85 request for the region totals \$255.9 million, and consists of \$222 million in MAP grants, \$30 million in concessional FMS credit, and \$3.9 million in grant IMET funds. It is proposed that these funds be authorized to be available until expended.

COUNTRY PROGRAMS

The common elements of military assistance for Central America, described above, obviously apply in varying degrees to each of the six countries for which assistance is proposed, depending on the unique situation in each country. Briefly described below are the main elements of the country strategy and programs. Additional justifications and descriptions of the programs will appear in the FY 85 Security Assistance Congressional Presentation Document (CPD).

Belize

Democratic Belize remains a peaceful, stable corner of Central America. Geographically, it is closer to Cuba than any other country in the region. It seeks to develop its Defense Force gradually in recognition of the eventual withdrawal of the British military garrison. We propose to continue our program at FY 84 Continuing Resolution levels, in the areas of vehicles, personal equipment, medical supplies, small arms and ammunition, and training. We propose an FY 85 program of \$.6 million.

Costa Rica

We strongly support Costa Rica's dedication to the preservation of its democratic traditions and the maintenance of its territorial integrity. Costa Rica has no standing armed forces per se, so the Public Security Forces, comprised of the Rural Guard and the Civil Guard, are responsible for national defense. These forces are now ill-equipped to control the country's borders or deal with acts of terrorism. Funds are required for the acquisition of small, fixed wing observation aircraft, helicopters, communications equipment, vehicles, patrol boats, light weapons, spare parts, and ammunition. We propose an FY 84 Supplemental program of \$7.85 million and an FY 85 program of \$10 million.

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El Salvador

Our support for democracy, progress in human rights, and economic development must be buttressed by the security shield which our military assistance provides. The emerging democracy in El Salvador needs more help from us to break the stalemate with the guerrillas. While the military stalemate continues, economic recovery and social programs are severely handicapped and the armed opposition, hoping for military victory, has little incentive to participate in the democratic process. U.S. security assistance is needed to bring about conditions in which the economic well-being of the people can be improved and peace can be achieved through broader participation in strengthened democratic processes.

The Bipartisan Commission concluded that there is "no logical argument for giving some aid but not enough. The worst possible policy for El Salvador is to provide just enough aid to keep the war going, but too little to wage it successfully."

We concur with the Bipartisan Commission. There are requirements which must be met if the Salvadoran armed forces are to seize the initiative through the National Campaign Plan: increased air and ground mobility, increased training, higher force levels, greater stocks of equipment and supplies, and improved conditions for the Salvadoran troops (including the provision of a medevac capability). Our proposed assistance is consistent with these requirements. The main elements are helicopters (including medevac), fixed wing aircraft, vehicles, patrol boats, engineer equipment, radar, communications equipment, hospital equipment, artillery, light infantry weapons, spare parts, and ammunition. We propose an FY 84 Supplemental program of \$178.7 million and an FY 85 program of \$132.5 million.

Guatemala

Our primary objective in Guatemala is to foster the return to a democratic government which will respect human rights, deal effectively with the insurgency, and be responsive to the economic and social needs of the people. Limited military assistance, the implementation of which would be conditioned upon progress in returning to democratic processes and improved human rights performance, would enable us to build a better relationship with the Guatemalan military and increase its

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sensitivity to the control of human rights abuses. This is especially pertinent in the area of training; there has been no IMET program for (and hence reduced contact with) the Guatemalan military since FY 77. Besides training, our assistance is proposed in the areas of engineer equipment, communications equipment, patrol boats, and spare parts for vehicles, helicopters, and fixed wing aircraft. We propose an FY 85 program of \$10.3 million.

Honduras

Honduras, which returned to democratic government early in 1982, plays a key role in resisting the spread of Soviet/Cuban/Nicaraguan influence in Central America. It would be extremely difficult to defend U.S. interests in the region without Honduran cooperation. Honduras is threatened by the unprecedented Nicaraguan military buildup and externally-supported subversion. The Bipartisan Commission recommended increased military assistance to build a credible deterrent. Our proposed assistance would fund training, helicopters, fixed wing transport and reconnaissance aircraft, naval equipment and patrol boats, vehicles, medical equipment, radar, communications equipment, artillery, small arms ammunition, and spare parts. Some of these items would be used in equipping two new infantry battalions. We propose an FY 84 Supplemental program of \$37.5 million and an FY 85 program of \$62.5 million.

Panama

The complex of U.S. national security and foreign policy interests -- centered around the Panama Canal and our military forces nearby -- is unique in the region and highly important in global terms. Increased U.S. military assistance would enable Panama to contribute more effectively to the combined defense of the Canal. Such assistance would also serve as a tangible indication of support for the scheduled May 1984 return to elected government. Our assistance to the newly reorganized Panama Defense Force would be in the areas of training, engineering equipment for civic action projects, communications and coastal surveillance equipment, one helicopter, one patrol boat, and maintenance equipment. Some of these items would be used in equipping new infantry battalions. We propose an FY 84 Supplemental program of \$10 million and an FY 85 program of \$20 million.

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Regional Military Training Center (RMTC)

The RMTC was established in Honduras in 1983 on a temporary, austere basis. It has proven to be extremely valuable as a low-cost way to provide large-scale training to Honduran and Salvadoran troops in a realistic environment. As noted previously in this presentation, training is the most important element in our military assistance programs in Central America. RMTC training concentrates on the more aggressive, highly mobile tactics needed for dealing effectively with insurgent forces. Improvements are now needed for administrative and operational efficiency. Besides construction costs, funds are needed for operation and maintenance, training materiel and supplies, and other training costs. We propose an FY 84 Supplemental program of \$25 million and an FY 85 program of \$20 million.

Attachment: Military Assistance to Central America: FY 1983-85

(#2187)

MILITARY ASSISTANCE TO CENTRAL AMERICA: FY 1983-85
(Millions of Dollars)

	<u>FY83 Actual</u>	<u>FY84 Continuing Resolution</u>	<u>FY84 Supplemental Request</u>	<u>FY84 Total</u>	<u>FY85 Request</u>
Belize					
MAP	-	.5	-	.5	.5
IMET	.075	.1	-	.1	.1
Total	.075	.6	-	.6	.6
Costa Rica					
MAP	2.5	2.0	7.85	9.85	9.8
IMET	.125	.15	-	.15	.2
Total	2.625	2.15	7.85	10.0	10.0
El Salvador					
MAP	33.5	45.0	178.7	223.7	116.0
FMSCR-T	46.5	18.5	-	18.5	-
FMSCR-C	-	-	-	-	15.0
IMET	1.3	1.3	-	1.3	1.5
Total	81.3	64.8	178.7	243.5	132.5
Guatemala					
FMSCR-C	-	-	-	-	10.0
IMET	-	-	-	-	.3
Total	-	-	-	-	10.3
Honduras					
MAP	27.5	40.0	37.5	77.5	61.3
FMSCR-T	9.0	-	-	-	-
IMET	.8	1.0	-	1.0	1.2
Total	37.3	41.0	37.5	78.5	62.5
Panama					
MAP	-	-	10.0	10.0	14.4
FMSCR-T	5.0	5.0	-	5.0	-
FMSCR-C	-	-	-	-	5.0
IMET	.45	.5	-	.5	.6
Total	5.45	5.5	10.0	15.5	20.0
RMTc					
MAP	-	-	25.0	25.0	20.0
Grand Total					
MAP	63.5	87.5	259.05	346.55	222.0
FMSCR-T	60.5	23.5	-	23.5	-
FMSCR-C	-	-	-	-	30.0
IMET	2.75	3.05	-	3.05	3.9
Total	126.75	114.05	259.05	373.1	255.9

**Policy
Statements**

Current
Policy No. 464

President Reagan

Strategic Importance of El Salvador and Central America

March 10, 1983



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by President Reagan before the National Association of Manufacturers, Washington, D.C., March 10, 1983.

We didn't come to Washington at an ideal time, and we've certainly had our share of problems. But the signs of recovery are springing up all around us. There's no mistaking the fact that, at long last, America is on the mend, and the courage and the vision of the people and institutions represented here today deserve a big share of the credit for this hard-earned but inflation-free recovery. So, on behalf of all your fellow citizens who have been freed from the ravages of runaway inflation and can look again to a future of better times and then new opportunity, I thank you.

America is meeting her challenge here at home. But there are other challenges, equally important, that we must face. And today I'd like to talk to you about one of them. Late last year, I visited Central America. Just a few weeks ago, our U.N. Ambassador, Jeane Kirkpatrick, also toured the area. And in the last few days, I have met with leaders of the Congress to discuss recent events in Central America and our policies in that troubled part of the world. So, today I'd like to report to you on these consultations and why they are important to us all.

The nations of Central America are among our nearest neighbors. El Salvador, for example, is nearer to Texas than Texas is to Massachusetts. Central America is simply too close, and the strategic stakes are too high, for us to

ignore the danger of governments seizing power there with ideological and military ties to the Soviet Union.

Let me show you just how important Central America is. At the base of Central America is the Panama Canal. Half of all the foreign trade of the United States passes through either the canal or other Caribbean searoutes on its way to or from our ports. And, of course, to the north is Mexico, a country of enormous human and material importance, with which we share 1,800 miles of peaceful frontier.

And between Mexico and the canal lies Central America. As I speak to you today, its countries are in the midst of the gravest crisis in their history. Accumulated grievances and social and economic change are challenging traditional ways. New leaders with new aspirations have emerged who want a new and better deal for their peoples. That is good.

The problem is that an aggressive minority has thrown in its lot with the Communists, looking to the Soviets and their own Cuban henchmen to help them pursue political change through violence. Nicaragua has become their base. These extremists make no secret of their goal. They preach the doctrine of a "revolution without frontiers." Their first target is El Salvador.

Importance of El Salvador

Why is El Salvador important? Well, to begin with, there is the sheer human tragedy. Thousands of people have already died, and, unless the conflict is ended democratically, millions more could be affected throughout the hemi-

sphere. The people of El Salvador have proved they want democracy. But if guerrilla violence succeeds, they won't get it. El Salvador will join Cuba and Nicaragua as a base for spreading fresh violence to Guatemala, Honduras, Costa Rica—probably the most democratic country in the world today. The killing will increase and so will the threat to Panama, the canal, and ultimately Mexico. In the process, vast numbers of men, women, and children will lose their homes, their countries, and their lives.

Make no mistake. We want the same thing the people of Central America want—an end to the killing. We want to see freedom preserved where it now exists and its rebirth where it does not. The Communist agenda, on the other hand, is to exploit human suffering in Central America to strike at the heart of the Western Hemisphere. By preventing reform and instilling their own brand of totalitarianism, they can threaten freedom and peace and weaken our national security.

I know a good many people wonder why we should care about whether Communist governments come into power in Nicaragua, El Salvador, or such other countries as Costa Rica, Honduras, Guatemala, and the islands of the Caribbean. One columnist argued last week that we shouldn't care because their products are not that vital to our economy. That's like the argument of another so-called expert that we shouldn't worry about Castro's control over the island of Grenada—their only important product is nutmeg.

Well, let me just interject right here. Grenada—that tiny, little island with Cuba at the west end of the Caribbean, Grenada at the east end—that tiny, little island is building now, or having built for it, on its soil and shores a naval base, a superior air base, storage bases and facilities for the storage of munitions, barracks and training grounds for the military. I'm sure all of that is simply to encourage the export of nutmeg.

People who make these arguments haven't taken a good look at a map lately or followed the extraordinary buildup of Soviet and Cuban military power in the region or read the Soviets' discussions about why the region is important to them and how they intend to use it.

It isn't nutmeg that is at stake in the Caribbean and Central America. It is the U.S. national security. Soviet military theorists want to destroy our capacity to resupply Western Europe in case of an emergency. They want to tie down our attention and forces on our own southern border and so limit our capacity to act in more distant places such as Europe, the Persian Gulf, the Indian Ocean, the Sea of Japan. Those Soviet theorists noticed what we failed to notice—that the Caribbean Sea and Central America constitute this nation's fourth border.

If we must defend ourselves against a large hostile military presence on our border, our freedom to act elsewhere, to help others, and to protect strategically vital sealanes and resources has been drastically diminished.

They know this. They have written about this. We have been slow to understand that the defense of the Caribbean and Central America against Marxist-Leninist takeover is vital to our national security in ways we're not accustomed to thinking about. For the past 3 years, under two presidents, the United States has been engaged in an effort to stop the advance of communism in Central America by doing what we do best—by supporting democracy. For 3 years, our goal has been to support fundamental change in this region—to replace poverty with development and dictatorship with democracy.

These objectives are not easy to attain, but we're on the right track. Costa Rica continues to set a democratic example, even in the midst of economic crisis and Nicaraguan intimidation. Honduras has gone from military rule to a freely elected civilian government. Despite incredible obstacles, the democratic center is holding in El Salvador, implementing land reform and working to replace the politics of death with the life of democracy.

So the good news is that our new policies have begun to work. Democracy, with free elections, free labor unions, freedom of religion, and respect for the integrity of the individual, is the clear choice of the overwhelming majority of Central Americans. In fact, except for Cuba and its followers, no government and no significant sector of the public anywhere in this hemisphere want to see the guerrillas seize power in El Salvador.

The bad news is that the struggle for democracy is still far from over. Despite their success in largely eliminating guerrilla political influence in populated areas, and despite some improvements in military armaments and mobility, El Salvador's people remain under strong pressure from armed guerrillas controlled by extremists with Cuban-Soviet support.

The military capability of these guerrillas—and I would like to stress military capability, for these are not peasant irregulars, they are trained military forces—this has kept political and economic progress from being turned into the peace the Salvadoran people so obviously want. Part of the trouble is internal to El Salvador. But an important part is external: the availability of training, tactical guidance, and military supplies coming into El Salvador from Marxist Nicaragua.

I'm sure you've read about guerrillas capturing rifles from government national guard units, and recently this has happened. But much more critical to guerrilla operations are the supplies and munitions that are infiltrated into El Salvador by land, sea, and air—by pack mules, by small boats, and by small aircraft. These pipelines fuel the guerrilla offensives and keep alive the conviction of their extremist leaders that power will ultimately come from the barrels of their guns.

Now, all this is happening in El Salvador just as a constitution is being written, as open presidential elections are being prepared, and as a peace commission named last week has begun to work on amnesty and national reconciliation to bring all social and political groups into the democratic process. It is the guerrilla militants who have so far refused to use democratic means, have ignored the voice of the people of El Salvador, and have resorted to terror, sabotage, and bullets instead of the ballot box.

Questions Concerning El Salvador

During the past week, we have discussed all of these issues and more with leaders and Members of the Congress. Their views have helped shape our own

thinking, and I believe that we've developed a common course to follow. Here are some of the questions raised most often.

First: How bad is the military situation? It is not good. Salvadoran soldiers have proved that when they are well trained, led, and supplied, they can protect the people from guerrilla attacks. But so far, U.S. trainers have been able to train only 1 soldier in 10. There is a shortage of experienced officers; supplies are unsure. The guerrillas have taken advantage of these shortcomings. For the moment, at least, they have taken the tactical initiative just when the sharply limited funding Congress has so far approved is running out.

A second vital question is: Are we going to send American soldiers into combat? And the answer to that is a flat no.

A third question: Are we going to Americanize the war with a lot of U.S. combat advisers? And again the answer is no. Only Salvadorans can fight this war, just as only Salvadorans can decide El Salvador's future. What we can do is help to give them the skills and supplies they need to do the job for themselves. That mostly means training. Without playing a combat role themselves and without accompanying Salvadoran units into combat, American specialists can help the Salvadoran Army improve its operations. Over the last year, despite manifest needs for more training, we have scrupulously kept our training activities well below our self-imposed numerical limit on numbers of trainers. We are currently reviewing what we can do to provide the most effective training possible to determine the minimum level of trainers needed and where the training should best take place. We think the best way is to provide training outside El Salvador, in the United States, or elsewhere, but that costs a lot more. So the number of U.S. trainers in El Salvador will depend upon the resources available.

Question four: Are we seeking a political or a military solution? Despite all I and others have said, some people still seem to think that our concern for security assistance means that all we care about is a military solution. That's nonsense. Bullets are no answer to economic inequities, social tensions, or political disagreements. Democracy is what we want. And what we want is to enable Salvadorans to stop the killing and sabotage so that economic and political reforms can take root. The real solution can only be a political one.

This reality leads directly to a fifth question: Why not stop the killings and start talking? Why not negotiate? Well, negotiations are already a key part of our policy. We support negotiations among all the nations of the region to strengthen democracy, to halt subversion, to stop the flow of arms, to respect borders, and to remove all the foreign military advisers—the Soviets, the Cubans, the East Germans, the PLO [Palestine Liberation Organization], as well as our own—from the region. A regional peace initiative is now emerging. We've been in close touch with its sponsors and wish it well. And we support negotiations within nations, aimed at expanding participation in democratic institutions—at getting all parties to participate in free, nonviolent elections.

What we oppose are negotiations that would be used as a cynical device for dividing up power behind the people's back. We cannot support negotiations which, instead of expanding democracy, try to destroy it—negotiations which would simply distribute power among armed groups without the consent of the people of El Salvador. We made that mistake some years ago in Laos when we pressed and pressured the Laotian Government to form a government, a co-op, with the Pathet Lao—armed guerrillas who'd been doing what the guerrillas are doing in El Salvador. And once they had that tripartite government, they didn't rest until those guerrillas, the Pathet Lao, had seized total control of the government of Laos.

The thousands upon thousands of Salvadorans who risked their lives to vote last year should not have their ballots thrown into the trash heap this year by letting a tiny minority on the fringe of a wide and diverse political spectrum shoot its way into power. No, the only legitimate road to power, the only road we can support, is through the voting booth, so that the people can choose for themselves—choose, as His Holiness the Pope said Sunday, "far from terror and in a climate of democratic conviviality." This is fundamental, and it is a moral as well as a practical belief that all free people of the Americas share.

U.S. Policy Toward El Salvador

Having consulted with the Congress, let me tell you where we are now and what we will be doing in the days ahead. We'll welcome all the help we can get. We will be submitting a comprehensive, integrated, economic and military assistance plan for Central America.

First, we will bridge the existing gap in military assistance. Our projec-

tions of the amount of military assistance needed for El Salvador have remained relatively stable over the past 2 years. However, the Continuing Resolution budget procedure in the Congress last December led to a level of U.S. security assistance for El Salvador in 1983 below what we'd requested, below that provided in 1982, and below that requested for 1984. I am proposing that \$60 million of the monies already appropriated for our worldwide military assistance programs be immediately re-allocated to El Salvador.

Further, to build the kind of disciplined, skilled army that can take and hold the initiative while respecting the rights of its people, I will be amending my supplemental that is currently before the Congress, to reallocate \$50 million to El Salvador. These funds will be sought without increasing the overall amount of the supplemental that we have already presented to Congress. And, as I have said, the focus of this assistance will remain the same: to train Salvadorans so that they can defend themselves. Because El Salvador's security problems are not unique in the region, I will also be asking for an additional \$20 million for regional security assistance. These funds will be used to help neighboring states to maintain their national security and will, of course, be subject to full congressional review.

Second, we will work hard to support reform, human rights, and democracy in El Salvador. Last Thursday, the Salvadoran Government extended the land reform program which has already distributed 20% of all the arable land in the country and transformed more than 65,000 farm workers into farm owners. What they ask is our continued economic support while the reform is completed. And we will provide it. With our support, we expect that the steady progress toward more equitable distribution of wealth and power in El Salvador will continue.

Third, we will, I repeat, continue to work for human rights. Progress in this area has been slow, sometimes disappointing. But human rights means working at problems, not walking away from them. To make more progress, we must continue our support, advice, and help to El Salvador's people and democratic leaders. Lawbreakers must be brought to justice, and the rule of law must supplant violence in settling disputes. The key to ending violations of human rights is to build a stable, working democracy. Democracies are accountable to their citizens. And when abuses occur in a democracy, they cannot be covered up. With our support, we expect the government of El Salvador to be able to move ahead in prosecuting the accused and in building a criminal justice system appli-

cable to all and ultimately accountable to the elected representatives of the people.

Now, I hope you've noticed that I was speaking in millions, not billions, and that, after 2 years in Federal office, is hard to do. In fact, there are some areas of government where, I think, they spill as much as I've talked about here over a weekend.

Fourth, the El Salvador Government proposes to solve its problems the only way they can be solved fairly—by having the people decide. President Magana has just announced nationwide elections moved up to this year, calling on all to participate—adversaries as well as friends. To help political adversaries participate in the elections, he has appointed a peace commission, including a Roman Catholic bishop and two independents. And he has called on the Organization of American States (OAS) and the international community to help. We were proud to participate, along with representatives of other democratic nations, as observers in last March's Constituent Assembly elections. We would be equally pleased to contribute again to any international effort, perhaps in conjunction with the OAS, to help the government insure the broadest possible participation in the upcoming elections—with guarantees that all, including critics and adversaries, can be protected as they participate.

Let me just say a word about those elections last March. A great worldwide propaganda campaign had, for more than a year, portrayed the guerrillas as somehow representative of the people of El Salvador. We were told over and over again that the government was the oppressor of the people.

Came the elections, and suddenly it was the guerrilla force threatening death to any who would attempt to vote. More than 200 busses and trucks were attacked and burned and bombed in an effort to keep the people from going to the polls. But they went to the polls, they walked miles to do so and stood in long lines for hours and hours. Our own congressional observers came back and reported one instance that they saw themselves of a woman, who had been shot by the guerrillas for trying to get to the polls, standing in the line refusing medical attention until she had had her opportunity to go in and vote. More than 80% of the electorate voted. I don't believe here in our land, where voting is so easy, we've had a turnout that great in the last half century. They elected the present government, and they voted for order, peace, and democratic rule.

Promoting Regional Economic Progress

Finally, we must continue to help the people of El Salvador and the rest of Central America and the Caribbean to make economic progress. More than three-quarters of our assistance to this region has been economic. Because of the importance of economic development to that region, I will ask the Congress for \$65 million in new monies and the reprogramming of \$103 million from already appropriated worldwide funds for a total of \$168 million in increased economic assistance for Central America. And to make sure that this assistance is as productive as possible, I'll continue to work with the Congress for the urgent enactment of the long-term opportunities for trade and free initiative that are contained in the Caribbean Basin initiative.

In El Salvador and in the rest of Central America, there are today thousands of small businessmen, farmers, and workers who have kept up their productivity as well as their spirits in the face of personal danger, guerrilla sabotage, and adverse economic conditions. With them stand countless national and local officials, military and civic leaders, and priests who have refused to give up on democracy. Their struggle for a better future deserves our help. We should be proud to offer it, for, in the last analysis, they are fighting for us, too.

The Need for U.S. Support

By acting responsibly and avoiding illusory shortcuts, we can be both loyal to our friends and true to our peaceful,

democratic principles. A nation's character is measured by the relations it has with its neighbors. We need strong, stable neighbors with whom we can cooperate. And we will not let them down.

Our neighbors are risking life and limb to better their lives, to improve their lands, and to build democracy. All they ask is our help and understanding as they face dangerous, armed enemies of liberty, and that our help be as sustained as their own commitment. None of this will work if we tire or falter in our support. I don't think that is what the American people want or what our traditions and faith require. Our neighbors' struggle for a better future deserves our help, and we should be proud to offer it.

We would, in truth, be opening a two-way street. We have never, I believe, fully realized the great potential of this Western Hemisphere. Oh, yes, I know in the past we have talked of plans, we've gone down there every once in a while with a great plan somehow for our neighbors to the south, but it was always a plan which we—the big colossus of the north—would impose on them. It was our idea.

On my trip to Central and South America, I asked for their ideas. I pointed out that we had a common heritage. We'd all come as pioneers to these two great continents. We worshipped the same God, and we'd lived at peace with each other longer than most people in other parts of the world.

There are more than 600 million of us calling ourselves Americans—North, Central, and South. We haven't really

begun to tap the vast resources of these continents.

Without sacrificing our national sovereignties, our own individual cultures or national pride, we could as neighbors make this Western Hemisphere—our hemisphere—a force for good such as the Old World has never seen. But it starts with the word neighbor. And that is what I talked about down there and sought their partnership—their equal partnership—in we of the Western Hemisphere coming together to truly develop fully the potential this hemisphere has.

Last Sunday, His Holiness Pope John Paul II prayed that the measures announced by President Magana would “contribute to orderly and peaceful progress” in El Salvador, progress “founded on the respect for the rights of all, and that all have the possibility to cooperate in a climate of true democracy for the promotion of the common good.”

My fellow Americans, we in the United States join in that prayer for democracy and peace in El Salvador, and we pledge our moral and material support to help the Salvadoran people achieve a more just and peaceful future. And in doing so, we stand true to both the highest values of our free society and our own vital interests. ■

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Secretary Shultz

Caribbean Basin Economic Recovery Act

April 13, 1983



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is a statement by Secretary Shultz before the Senate Finance Committee, April 13, 1983.

I welcome this opportunity to continue our dialogue on the Caribbean region and specifically the Caribbean Basin Economic Recovery Act. The legislation we have proposed is a far-sighted response to a deepening economic and social crisis troubling some of our closest neighbors. It deserves to become law this year—the sooner this year, the better.

Our Vital Interests

Let me begin by reviewing our own vital interests in the Caribbean Basin. The Caribbean is an unfenced neighborhood that we share with 27 island and coastal nations. Their security and economic well-being have a direct impact on our own strategic and economic interests.

We do not have to go to Miami to come in daily contact with people born in the Caribbean region or to appreciate the rapid impact of turmoil there on our own society. In fact, our country has become a safehaven for thousands upon thousands of Caribbean citizens who pin their hopes for a better life on a dangerous, uncertain, and clandestine migration to this country. As a result, the basin area is now the second largest source of illegal immigration to the United States. This situation will not improve until the nations of the Caribbean Basin are better able to offer their people opportunities to build secure, productive lives at home.

Economically, the Caribbean Basin region is a vital strategic and commercial artery for the United States. Nearly half our trade, three-quarters of our imported oil, and over half our imported strategic minerals pass through the Panama Canal or the Gulf of Mexico. If this region should become prey to social and economic upheaval, and dominated by regimes hostile to us, the consequences for our security would be immediate and far reaching.

The health of the Caribbean economies also affects our economy. The area is now a \$7 billion market for U.S. exports. Thousands of American jobs were lost when our exports to the region fell \$150 million last year as income in the region declined. A large portion of the debt of Caribbean countries is owed to banks in this country. At the end of 1981, U.S. direct investment in the region was approximately \$8 billion.

The Caribbean Basin Economic Recovery Act is the cornerstone of our effort to come to grips with these issues. This legislation recognizes the critical relationship between economic development and political stability. It is designed to promote self-sustaining economic growth; to enable countries in the region to strengthen democratic institutions; and to implement political, social, and economic reforms. Ultimately, its purpose is to help restore the faith of people of the region in their countries' ability to offer them hope for a better future.

Economic Problems

The societies of the Caribbean Basin republics are undergoing inevitable change that puts them under considerable stress. Declining employment in agriculture, high birth rates, and slow creation of urban jobs have diminished hopes for combating poverty and caused appalling rates of unemployment, especially among the young. Youth unemployment in Jamaica, for example, is estimated to be 50%. Without dramatic increases in investment to improve living standards and to create jobs, rising crime and urban instability will create a downward spiral of social disintegration. And because the Caribbean economies are so small, new investment—domestic as well as foreign—will not take place without assured access to outside markets.

The diminutive size of individual Caribbean markets—averaging just 1.5 million people, with 16 countries under 0.5 million—makes them uniquely dependent on the outside world in ways we can only dimly imagine. The national incomes of most Caribbean Basin countries are less than that of a U.S. metropolitan area of 300,000 people, such as Omaha, Nebraska, or Charlotte, North Carolina. Dominica, for example, with a population of only 80,000, is the least developed country in the eastern Caribbean. It is also one of the most democratic and pro-Western. If small, vulnerable economies like Dominica are to be at all viable, they must have access to bigger markets. In Central America where the economies tend to be a bit larger, the disruptions in recent years of the Central American Common Market have made economies such as Costa Rica much more dependent on markets outside its region. As long as they are limited to production for their small and poor domestic markets, the small economies of the Caribbean Basin cannot diversify their economies. Nor can they develop the expertise and efficiency needed to become prosperous international traders.

We recognize that the Caribbean Basin economies will always be dependent to some degree on markets outside the region. But developments of the past few years have had a devastating impact. Prices of the non-oil commodities the Caribbean republics export—sugar, coffee, bananas, bauxite—have fallen drastically. And this is at a time when they are still struggling to cope with the massive increases of the 1970s in the price of their most basic import: oil. Recession in the United States has caused a steep drop in revenue from tourism. Foreign debt has mounted to

increasingly burdensome levels. The withering of government revenues has stopped or delayed development projects. Real per capita incomes have declined throughout most of the basin region.

All this adds up to a massive problem: the governments of the Caribbean republics must find ways to assure sociopolitical stability and revive economic growth while also accommodating rapid internal change. Their success or failure in meeting this challenge will greatly affect the environment in which we live.

The Challenge/The Alternatives

The United States thus has a vital stake in helping its Caribbean neighbors pursue their goals of open societies and growing economies through productive exchange with us and the rest of the world. The Administration has approached this task with full recognition that we have great assets and advantages when it comes to supporting democratic development.

This becomes most clear when we look at the alternatives. One alternative is the closed solution: the society which, while not a viable economy, turns in on itself and enforces by fiat the distribution of the limited economic benefits a small economy can generate itself or receive in aid. This is a recipe for totalitarian force—because people will not take it willingly—and economic stagnation. It is the Cuban solution. It poses continuing threats to our interests in this hemisphere which we have had to counter for the last 20 years.

A second alternative is decline of the population to the level which a small economy can support on its own. With the young populations and high birth-rates of these countries, this alternative entails massive emigration from the Caribbean Basin region. Our country is inevitably the preferred destination. As much as we welcome the rich contribution of the region's immigrants to our own life, massive immigration is not what we want. Nor is it what the countries of the region want. That is not at issue. Nor is it the only reason we care.

The President's proposed legislation supports a third alternative—democratic development. This is the only alternative that meets our vital self-interests and our nation's long tradition as a source of progress and hope in the world. Politically, the people of these societies have shown they want a voice in their own fate and that they reject totalitarian formulas. Two-thirds of the governments of the region have democratically elected

governments. Significant progress toward democracy is occurring in others as well, despite the obstacles. Democracy represents a set of values that virtually all the peoples of the region see as sympathetic to their own aspirations. The Cuban and now Nicaraguan models stand as clear demonstrations of both political repression and economic failure.

Economically we have the assets that can be ultimately decisive in the orientation of Caribbean development. We represent a market economy that works, a natural market for Caribbean exports, the major source of private investment in the region, and the management and technology that come with it.

The Caribbean initiative of the Administration is an imaginative and comprehensive approach to bringing these assets to bear on the problems of our Caribbean neighbors. It is a forward-looking effort to boost both development and stability. Because it builds on private resources and enterprise, it has the potential to deal with their deep economic plight in a fundamental way. Because it can help to ease delicate social and political transitions before they create security problems of an international dimension, it is a program to get ahead of history, instead of just countering its unwelcome effects.

Caribbean Basin Program

Our program is part of a major multilateral effort. Other higher income countries of the region are also increasing their efforts significantly. Canada has embarked on a 5-year program for the area providing over \$500 million. Canada currently provides duty-free treatment or preferential access for 98% of its imports from the Caribbean Basin. Mexico and Venezuela, despite their own financial difficulties, are continuing concessional credits to the region through their oil facility. Venezuelan financial support has been over \$2.5 billion in the last 5 years. Colombia is initiating technical assistance of up to \$50 million, new credit lines of \$10 million per country, and additional balance-of-payments financing and a trust fund for less developed countries of the eastern Caribbean. The collective efforts of these democracies are a strong encouragement to open societies and democratic development in the region. But success would be imperiled without us. Our full participation is vitally needed.

The U.S. contribution integrates three types of mutually reinforcing economic measures—trade opportunities, tax incentives, and aid. The program has

been developed in continuing consultation with the governments and the private sectors of the regions. It reflects their own priorities and assessment of their needs.

As you know, we were able to make a start on our Caribbean economic initiatives last summer, when the Congress approved an emergency supplemental aid package of \$350 million—a key element in the President's original Caribbean Basin program. Our aid requests for both FY 1983 and FY 1984 reflect the new higher priority we have given to the Caribbean Basin area in the allocation of our scarce economic assistance resources. As a percentage of our overall economic assistance budget, assistance to the Caribbean region will double in FY 1983 and 1984, over FY 1980, from 6.6% authorized in 1980 to 13.6% proposed in FY 1984.

Most of the \$350 million appropriated last year has been obligated for use by the private sector in those countries with the most serious financial problems. This assistance has helped many established, productive private firms continue to obtain needed raw materials and equipment from the United States. In addition, it has provided critical support for balance-of-payments problems and infrastructure projects in the small, least developed countries.

We have also been able to use a portion of these funds to support training and scholarship opportunities for individuals from the Caribbean region with leadership potential. These opportunities support our goal of transferring knowledge and skills, enhancing economic cooperation among nations of the region and strengthening political ties between recipient countries and the United States. We are currently offering 1,300 scholarships each year. As new money is available, the number of scholarship recipients will continue to increase. These programs have high development, economic, and political impact and are a key element in our assistance to the Caribbean Basin region.

But as the President said when he requested that emergency CBI [Caribbean Basin Initiative] appropriation, financial assistance is only a short-term remedy. Indeed, financial assistance and development projects will be wasted if the development process is not a broad-based and integrated process. We believe that such development can only be achieved through a strategy which encourages private initiative and investment.

The U.S. Market

The key to new production and employment in the Caribbean is assured access to its natural market in this country. Suppliers in the Caribbean need help to get started in the competition with larger, more experienced, and established producers elsewhere. That suggests a bold solution that reinforces the natural pole of attraction of the U.S. market.

The President's proposal to grant duty-free entry to Caribbean Basin products for a 12-year period is the centerpiece of the Caribbean Basin Initiative. It can provide a decisive boost to Caribbean development. The proposal is dramatic and simple. It offers long-term economic benefits of free trade and the immediate impact of a major political commitment to the region. By assuring duty-free access to the vast U.S. market, this measure will provide strong and continuing incentives for investment, innovation, and risk taking in Caribbean countries.

As I have pointed out, the domestic economies of most Caribbean Basin nations are simply too small to permit the diversification essential for noninflationary growth. An opening of the U.S. market to the nontraditional products of these countries will provide important opportunities to develop new production and an incentive to produce more efficiently. Increased and diversified production will mean higher wages, a strengthened middle class, more resources available for education and health—and more demand for raw materials, equipment, and finished goods from the United States.

I recognize that these are difficult economic times in our own country. Understandably, there is concern over the impact this legislation will have on workers in the United States. I am convinced that the impact on our economy will be positive. Because the Caribbean countries are so closely linked to our economy, our sales to them will grow apace with their economies. Excluding petroleum trade, we have a \$2 billion trade surplus with the Caribbean Basin and are already the major trade partner of most countries there. A stronger Caribbean Basin will be an even better and more reliable customer for U.S. products. As countries in the region produce more, they will import more. American workers will share in the fruits of that growth.

The Caribbean Basin economies are equal to only 2% of our GNP, and our imports from the region are less than

4% of our total imports. Imports not already entering duty-free are an even smaller percentage. Therefore, even a significant increase in Caribbean Basin production and exports will not have a significant negative impact on our economy. And if American industries are injured by Caribbean imports, they have the remedy of seeking relief under the safeguard provisions of the 1974 Trade Act.

The United States is the world's most open major market. A large share of the Caribbean Basin's exports to the United States already enter duty free. Petroleum accounts for almost 60% of our imports from the region. In 1982, 70% of our nonpetroleum imports from the Caribbean Basin entered duty free. Sixteen percent of these nonpetroleum imports entered under GSP [generalized system of preferences]. But GSP is due to expire next year. While the Administration strongly supports the extension of GSP, it contains competitive need restrictions and product exclusions which limit its usefulness as a stimulus to broad-based recovery by the small Caribbean Basin countries. The products that would be extended duty-free entry as a result of the proposed CBI legislation comprised only one-quarter of 1% of U.S. imports in 1982. Yet these products represent an important area of potential new production for the Caribbean Basin countries.

I would like to mention briefly a section of this bill that was not included when I addressed this committee last August on this legislation. I refer to the convention tax deduction. This provision recognizes the vital importance of tourism and travel to the economies of many Caribbean nations. I should emphasize that this provision would simply grant Caribbean Basin conventions tax status equal to that presently enjoyed by Mexico, Canada, and Jamaica. In our consultations with Caribbean Basin business and government leaders, they have frequently cited the disadvantageous present tax treatment of Caribbean conventions as being an obstacle to the recovery of their travel industries. We should also keep in mind that many American travel dollars spent in the Caribbean come back via U.S.-owned airlines, hotels, and recreation facilities.

Let me reiterate the important role that Puerto Rico and the U.S. Virgin Islands have in the Caribbean Basin Initiative. Since the earliest days of this Administration, we have consulted closely with the governments of Puerto Rico and the U.S. Virgin Islands to fashion

the initiative in a way that would foster the development of the U.S. Caribbean. The legislation reflects that in several ways. It liberalizes duty-free imports into the United States from insular possessions. It explicitly permits industries in Puerto Rico and U.S. territories to petition for relief under the safeguard provisions of U.S. trade law. It also modifies environmental restrictions on the U.S. Virgin Islands rum industry and constructs the rules-of-origin requirements to encourage the use of products of Puerto Rico and the U.S. Virgin Islands. An important provision would transfer excise taxes on all imported rum to the treasuries of Puerto Rico and the U.S. Virgin Islands. In sum, the facilities, skills, and people of Puerto Rico and the U.S. Virgin Islands are a major component of our development cooperation efforts elsewhere in the Caribbean.

The Political Dimension

The political dimension of Caribbean progress is of great and ultimate importance to us. We do not seek clients. Our goal is a region of independent countries in which people can choose their leaders and their own path to economic and social progress. We are confident that will produce societies and regimes which are not hostile to us. That same belief underlies the strong commitment of the other democracies in the region to the Caribbean initiative. Together with Mexico, Venezuela, Colombia, and the region's other democratic governments, we seek to encourage economic and social reforms which address the real grievances of various sectors of the

population of Central America and Caribbean countries.

Stability in societies based on free association rather than coercion must depend on addressing people's right to own their own land. They must be able to organize in cooperatives and unions to promote their economic interests. And they must be able to exercise their political rights, free of intimidation. That is the course we encourage through our support in the Caribbean Basin region. That is also the course which the peoples of the region seek—as they have shown repeatedly in their own political life.

Conclusion

The Caribbean Basin Initiative is solidly grounded in the tradition and values of both this country and the Caribbean region. It is a strong and multilateral effort in which the U.S. Government has cooperated and consulted with the Governments of Canada, Venezuela, Mexico, and Colombia; with other donor countries; and with the international financial institutions. The proposals before this committee are the result of extensive discussions with business and government leaders in the Caribbean Basin region about the obstacles to their economic revival. The focus of our efforts is on the private sector, which must be the engine of a lasting economic growth.

The nations of the Caribbean Basin are counting on us. It is now over a year since President Reagan outlined his Caribbean Basin Initiative proposals before the Organization of American States. Those proposals were warmly,

even enthusiastically, received by most government, labor, and private sector leaders in the region. For those in the Caribbean Basin countries who believe in cooperation with the United States, in pluralistic democracy and private enterprise, the announcement of the initiative demonstrated that the United States realizes the importance of urgent and far-reaching action to promote the region's prosperity. They were bitterly disappointed that this legislation did not reach the Senate floor during the last Congress. If we fail to act now, our inaction will be interpreted as lack of interest and a broken promise. It would undercut moderate leaders in the region who have geared their policies to cooperation with the United States and to serious efforts for economic development and democracy. It would extinguish the hopes that have been raised in the region that the United States is willing to give significant help to foster economic and social progress in the Caribbean Basin.

I am confident that after careful examination, this committee and the Senate will recognize that this legislation is important to the interests of the United States and the Caribbean Basin countries. I strongly urge favorable action. ■

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Current
Policy No. 482

President Reagan

Central America: Defending Our Vital Interests

April 27, 1983



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by President Reagan before a joint session of Congress, April 27, 1983.

A number of times in past years, Members of Congress and a President have come together in meetings like this to resolve a crisis. I have asked for this meeting in the hope that we can prevent one.

It would be hard to find many Americans who are not aware of our stake in the Middle East, the Persian Gulf, or the NATO line dividing the free world from the communist bloc. And the same could be said for Asia.

But in spite of, or maybe because of, a flurry of stories about places like Nicaragua and El Salvador, and, yes, some concerted propaganda, many of us find it hard to believe we have a stake in problems involving those countries. Too many have thought of Central America as just that place way down below Mexico that can't possibly constitute a threat to our well-being.

And that's why I have asked for this session. Central America's problems do directly affect the security and the well-being of our own people. And Central America is much closer to the United States than many of the world trouble spots that concern us. So as we work to restore our own economy, we cannot afford to lose sight of our neighbors to the south.

El Salvador is nearer to Texas than Texas is to Massachusetts. Nicaragua is just as close to Miami, San Antonio, San Diego, and Tucson as those cities are to Washington where we're gathered

tonight. But nearness on the map doesn't even begin to tell the strategic importance of Central America, bordering as it does on the Caribbean—our lifeline to the outside world. Two-thirds of all our foreign trade and petroleum pass through the Panama Canal and the Caribbean. In a European crisis, at least half of our supplies for NATO would go through these areas by sea. It's well to remember that in early 1942 a handful of Hitler's submarines sank more tonnage there than in all of the Atlantic Ocean. And they did this without a single naval base anywhere in the area.

Today, the situation is different. Cuba is host to a Soviet combat brigade, a submarine base capable of servicing Soviet submarines, and military air bases visited regularly by Soviet military aircraft.

Because of its importance, the Caribbean Basin is a magnet for adventurism. We are all aware of the Libyan cargo planes refueling in Brazil a few days ago on their way to deliver medical supplies to Nicaragua. Brazilian authorities discovered the so-called medical supplies were actually munitions and prevented their delivery. You may remember that last month, speaking on national television, I showed an aerial photo of an airfield being built on the island of Grenada. Well, if that airfield had been completed, those planes could have refueled there and completed their journey.

If the Nazis during World War II and the Soviets today could recognize the Caribbean and Central America as vital to our interests, shouldn't we also?

Struggle for Freedom in El Salvador

For several years now, under two administrations, the United States has been increasing its defense of freedom in the Caribbean Basin. And I can tell you tonight, democracy is beginning to take root in El Salvador which, until a short time ago, knew only dictatorship. The new government is now delivering on its promises of democracy, reforms, and free elections. It wasn't easy, and there was resistance to many of the attempted reforms with assassinations of some of the reformers. Guerrilla bands and urban terrorists were portrayed in a worldwide propaganda campaign as freedom fighters representative of the people. Ten days before I came into office, the guerrillas launched what they called a "final offensive" to overthrow the government. And their radio boasted that our new Administration would be too late to prevent their victory.

They learned democracy cannot be so easily defeated. President Carter did not hesitate. He authorized arms and ammunition to El Salvador. The guerrilla offensive failed, but not America's will. Every president since this country assumed global responsibilities has known that those responsibilities could only be met if we pursued a bipartisan foreign policy.

As I said a moment ago, the Government of El Salvador has been keeping its promises, like the land reform program which is making thousands of farm tenants, farm owners. In a little over 3 years, 20% of the arable land in El Salvador has been redistributed to more than 450,000 people. That's 1 in 10 Salvadorans who have benefited directly from this program.

El Salvador has continued to strive toward an orderly and democratic society. The government promised free elections. On March 28th, little more than a year ago, after months of campaigning by a variety of candidates, the suffering people of El Salvador were offered a chance to vote—to choose the kind of government they wanted. And suddenly the so-called freedom fighters in the hills were exposed for what they really are—a small minority who want power for themselves and their backers not democracy for the people. The guerrillas threatened death to anyone who voted. They destroyed hundreds of buses and trucks to keep the people from getting to the polling places. Their slogan was brutal: "Vote today, die tonight." But on election day, an unprecedented 80% of the electorate braved ambush and gunfire and trudged for miles, many of

them, to vote for freedom. And that's truly fighting for freedom. We can never turn our backs on that.

Members of this Congress who went there as observers told me of a woman who was wounded by rifle fire on the way to the polls, who refused to leave the line to have her wound treated until after she had voted. Another woman had been told by the guerrillas that she would be killed when she returned from the polls, and she told the guerrillas, "You can kill me; you can kill my family; you can kill my neighbors; you can't kill us all." The real freedom fighters of El Salvador turned out to be the people of that country—the young, the old, the in between—more than a million of them out of a population of less than 5 million. The world should respect this courage and not allow it to be belittled or forgotten. And again, I say in good conscience, we can never turn our backs on that.

The democratic political parties and factions in El Salvador are coming together around the common goal of seeking a political solution to their country's problems. New national elections will be held this year and they will be open to all political parties. The government has invited the guerrillas to participate in the election and is preparing an amnesty law. The people of El Salvador are earning their freedom, and they deserve our moral and material support to protect it.

Yes, there are still major problems regarding human rights, the criminal justice system, and violence against non-combatants. And, like the rest of Central America, El Salvador also faces severe economic problems. But in addition to recession-depressed prices for major agricultural exports, El Salvador's economy is being deliberately sabotaged. Tonight in El Salvador—because of ruthless guerrilla attacks—much of the fertile land cannot be cultivated; less than half the rolling stock of the railways remains operational; bridges, water facilities, telephone and electric systems have been destroyed and damaged. In one 22-month period, there were 5,000 interruptions of electrical power; one region was without electricity for a third of a year.

I think Secretary of State Shultz put it very well the other day. "Unable to win the free loyalty of El Salvador's people, the guerrillas," he said, "are deliberately and systematically depriving them of food, water, transportation, light, sanitation, and jobs. And these are the people who claim they want to help the common people."

They don't want elections because they know they would be defeated. But, as the previous election showed, the Salvadoran people's desire for democracy will not be defeated. The guerrillas are not embattled peasants armed with muskets. They are professionals, sometimes with better training and weaponry than the government's soldiers. The Salvadoran battalions that have received U.S. training have been conducting themselves well on the battlefield and with the civilian population. But, so far, we've only provided enough money to train 1 Salvadoran soldier out of 10, fewer than the number of guerrillas that are trained by Nicaragua and Cuba.

Relations With Nicaragua

And let me set the record straight on Nicaragua, a country next to El Salvador. In 1979, when the new government took over in Nicaragua, after a revolution which overthrew the authoritarian rule of Somoza, everyone hoped for the growth of democracy. We in the United States did too. By January of 1981, our emergency relief and recovery aid to Nicaragua totaled \$118 million—more than provided by any other developed country. In fact, in the first 2 years of Sandinista rule, the United States directly or indirectly sent five times more aid to Nicaragua than it had in the 2 years prior to the revolution. Can anyone doubt the generosity and good faith of the American people?

These were hardly the actions of a nation implacably hostile to Nicaragua. Yet, the Government of Nicaragua has treated us as an enemy. It has rejected our repeated peace efforts. It has broken its promises to us, to the Organization of American States, and, most important of all, to the people of Nicaragua.

No sooner was victory achieved than a small clique ousted others who had been part of the revolution from having any voice in government. Humberto Ortega, the Minister of Defense, declared Marxism-Leninism would be their guide, and so it is. The Government of Nicaragua has imposed a new dictatorship; it has refused to hold the elections it promised; it has seized control of most media and subjects all media to heavy prior censorship; it denied the bishops and priests of the Roman Catholic Church the right to say mass on radio during holy week; it insulted and mocked the Pope; it has driven the Miskito Indians from their homelands—burning their villages.

destroying their crops, and forcing them into involuntary internment camps far from home; it has moved against the private sector and free labor unions; it condoned mob action against Nicaragua's independent human rights commission and drove the director of that commission into exile.

In short, after all these acts of repression by the government, is it any wonder that opposition has formed? Contrary to propaganda, the opponents of the Sandinistas are not die-hard supporters of the previous Somoza regime. In fact, many are anti-Somoza heroes who fought beside the Sandinistas to bring down the Somoza government. Now they've been denied any part in the new government because they truly wanted democracy for Nicaragua, and they still do. Others are Miskito Indians fighting for their homes, their lands, and their lives.

The Sandinista revolution in Nicaragua turned out to be just an exchange of one set of autocratic rulers for another, and the people still have no freedom, no democratic rights, and more poverty. Even worse than its predecessor, it is helping Cuba and the Soviets to destabilize our hemisphere.

Meanwhile, the Government of El Salvador, making every effort to guarantee democracy, free labor unions, freedom of religion, and a free press, is under attack by guerrillas dedicated to the same philosophy that prevails in Nicaragua, Cuba, and, yes, the Soviet Union. Violence has been Nicaragua's most important export to the world. It is the ultimate in hypocrisy for the unelected Nicaraguan Government to charge that we seek their overthrow when they're doing everything they can to bring down the elected Government of El Salvador. The guerrilla attacks are directed from a headquarters in Managua, the capital of Nicaragua.

But let us be clear as to the American attitude toward the Government of Nicaragua. We do not seek its overthrow. Our interest is to ensure that it does not infect its neighbors through the export of subversion and violence. Our purpose, in conformity with American and international law, is to prevent the flow of arms to El Salvador, Honduras, Guatemala, and Costa Rica. We have attempted to have a dialogue with the Government of Nicaragua, but it persists in its efforts to spread violence.

We should not—and we will not—protect the Nicaraguan Government from the anger of its own people. But we should, through diplomacy, offer an alternative. And, as Nicaragua ponders its options, we can and will—with all the

resources of diplomacy—protect each country of Central America from the danger of war. Even Costa Rica, Central America's oldest and strongest democracy, a government so peaceful it doesn't even have an army, is the object of bullying and threats from Nicaragua's dictators.

Nicaragua's neighbors know that Sandinista promises of peace, nonalliance, and nonintervention have not been kept. Some 36 new military bases have been built; there were only 13 during the Somoza years. Nicaragua's new army numbers 25,000 men supported by a militia of 50,000. It is the largest army in Central America supplemented by 2,000 Cuban military and security advisers. It is equipped with the most modern weapons, dozens of Soviet-made tanks, 800 Soviet-bloc trucks, Soviet 152-MM howitzers, 100 antiaircraft guns, plus planes and helicopters. There are additional thousands of civilian advisers from Cuba, the Soviet Union, East Germany, Libya, and the PLO [Palestine Liberation Organization]. And we are attacked because we have 55 military trainers in El Salvador.

The goal of the professional guerrilla movements in Central America is as simple as it is sinister—to destabilize the entire region from the Panama Canal to Mexico. If you doubt me on this point, just consider what Cayetano Carpio, the now-deceased Salvadoran guerrilla leader, said earlier this month. Carpio said that after El Salvador falls, El Salvador and Nicaragua would be "arm-in-arm and struggling for the total liberation of Central America."

Nicaragua's dictatorial junta, who themselves made war and won power operating from bases in Honduras and Costa Rica, like to pretend they are today being attacked by forces based in Honduras. The fact is, it is Nicaragua's Government that threatens Honduras, not the reverse. It is Nicaragua who has moved heavy tanks close to the border, and Nicaragua who speaks of war. It was Nicaraguan radio that announced on April 8th the creation of a new, unified, revolutionary coordinating board to push forward the Marxist struggle in Honduras. Nicaragua, supported by weapons and military resources provided by the communist bloc, represses its own people, refuses to make peace, and sponsors a guerrilla war against El Salvador.

The Need for U.S. Support

President Truman's words are as apt today as they were in 1947, when he, too, spoke before a joint session of the Congress:

At the present moment in world history nearly every nation must choose between alternative ways of life. The choice is too often not a free one.

One way of life is based upon the will of the majority, and is distinguished by free institutions, representative government, free elections, guarantees of individual liberty, freedom of speech and religion, and freedom from political oppression.

The second way of life is based upon the will of a minority forcibly imposed upon the majority. It relies upon terror and oppression, a controlled press and radio, fixed elections, and the suppression of personal freedoms.

I believe that it must be the policy of the United States to support free peoples who are resisting attempted subjugation by armed minorities or by outside pressures.

I believe that we must assist free peoples to work out their own destinies in their own way.

I believe that our help should be primarily through economic and financial aid which is essential to economic stability and orderly political processes.

... Collapse of free institutions and loss of independence would be disastrous not only for them but for the world. Discouragement and possibly failure would quickly be the lot of neighboring peoples striving to maintain their freedom and independence.

The countries of Central America are smaller than the nations that prompted President Truman's message. But the political and strategic stakes are the same. Will our response—economic, social, military—be as appropriate and successful as Mr. Truman's bold solutions to the problems of postwar Europe?

Some people have forgotten the successes of those years and the decades of peace, prosperity, and freedom they secured. Some people talk as though the United States were incapable of acting effectively in international affairs without risking war or damaging those we seek to help.

Are democracies required to remain passive while threats to their security and prosperity accumulate?

Must we just accept the destabilization of an entire region from the Panama Canal to Mexico on our southern border?

Must we sit by while independent nations of this hemisphere are integrated into the most aggressive empire the modern world has seen?

Must we wait while Central Americans are driven from their homes, like the more than 4 million who have

sought refuge out of Afghanistan or the 1.5 million who have fled Indochina or the more than 1 million Cubans who have fled Castro's Caribbean utopia? Must we, by default, leave the people of El Salvador no choice but to flee their homes, creating another tragic human exodus?

I do not believe there is a majority in the Congress or the country that counsels passivity, resignation, defeatism in the face of this challenge to freedom and security in our hemisphere.

I do not believe that a majority of the Congress or the country is prepared to stand by passively while the people of Central America are delivered to totalitarianism, and we ourselves are left vulnerable to new dangers.

Only last week an official of the Soviet Union reiterated Brezhnev's threat to station nuclear missiles in this hemisphere—5 minutes from the United States. Like an echo, Nicaragua's comandante, Daniel Ortega, confirmed that, if asked, his country would consider accepting those missiles. I understand that today they may be having second thoughts.

Now, before I go any further, let me say to those who invoke the memory of Vietnam: There is no thought of sending American combat troops to Central America; they are not needed—indeed, they have not been requested there. All our neighbors ask of us is assistance in training and arms to protect themselves while they build a better, freer life.

We must continue to encourage peace among the nations of Central America. We must support the regional efforts now underway to promote solutions to regional problems. We cannot be certain that the Marxist-Leninist bands who believe war is an instrument of politics will be readily discouraged. It's crucial that we not become discouraged before they do. Otherwise the region's freedom will be lost and our security damaged in ways that can hardly be calculated.

If Central America were to fall, what would the consequences be for our position in Asia, Europe, and for alliances such as NATO? If the United States cannot respond to a threat near our own borders, why should Europeans or Asians believe that we are seriously concerned about threats to them? If the Soviets can assume that nothing short of an actual attack on the United States will provoke an American response, which ally, which friend will trust us then?

Basic Goals

The Congress shares both the power and the responsibility for our foreign policy. Tonight, I ask you, the Congress, to join me in a bold, generous approach to the problems of peace and poverty, democracy and dictatorship in the region. Join me in a program that prevents communist victory in the short run but goes beyond to produce, for the deprived people of the area, the reality of present progress and the promise of more to come.

Let us lay the foundation for a bipartisan approach to sustain the independence and freedom of the countries of Central America. We in the Administration reach out to you in this spirit.

We will pursue four basic goals in Central America.

First. In response to decades of inequity and indifference, we will support democracy, reform, and human freedom. This means using our assistance, our powers of persuasion, and our legitimate "leverage" to bolster humane democratic systems where they already exist and to help countries on their way to that goal complete the process as quickly as human institutions can be changed. Elections—in El Salvador and also in Nicaragua—must be open to all, fair and safe. The international community must help. We will work at human rights problems, not walk away from them.

Second. In response to the challenge of world recession and, in the case of El Salvador, to the unrelenting campaign of economic sabotage by the guerrillas, we will support economic development. By a margin of two-to-one, our aid is economic now, not military. Seventy-seven cents out of every dollar we will spend in the area this year goes for food, fertilizers, and other essentials for economic growth and development. And our economic program goes beyond traditional aid: The Caribbean initiative introduced in the House earlier today will provide powerful trade and investment incentives to help these countries achieve self-sustaining economic growth without exporting U.S. jobs. Our goal must be to focus our immense and growing technology to enhance health care, agriculture, and industry and to ensure that we, who inhabit this interdependent region, come to know and understand each other better, retaining our diverse identities, respecting our diverse traditions and institutions.

Third. In response to the military challenge from Cuba and Nicaragua—to their deliberate use of force to spread tyranny—we will support the security of the region's threatened nations. We do not view security assistance as an end in itself but as a shield for democratization, economic development, and diplomacy. No amount of reform will bring peace so long as guerrillas believe they will win by force. No amount of economic help will suffice if guerrilla units can destroy roads and bridges and power stations and crops again and again with impunity. But, with better training and material help, our neighbors can hold off the guerrillas and give democratic reform time to take root.

Fourth. We will support dialogue and negotiations—both among the countries of the region and within each country. The terms and conditions of participation in elections are negotiable. Costa Rica is a shining example of democracy. Honduras has made the move from military rule to democratic government. Guatemala is pledged to the same course. The United States will work toward a political solution in Central America which will serve the interests of the democratic process.

To support these diplomatic goals, I offer these assurances:

- The United States will support any agreement among Central American countries for the withdrawal—under fully verifiable and reciprocal conditions—of all foreign military and security advisers and troops.

- We want to help opposition groups join the political process in all countries and compete by ballots instead of bullets.

- We will support any verifiable, reciprocal agreement among Central American countries on the renunciation of support for insurgencies on neighbors' territory.

- And, finally, we desire to help Central America end its costly arms race and will support any verifiable, reciprocal agreements on the nonimportation of offensive weapons.

To move us toward these goals more rapidly, I am tonight announcing my intention to name an ambassador at large as my special envoy to Central America. He or she will report to me through the Secretary of State. The ambassador's responsibilities will be to lend U.S. support to the efforts of regional govern-

ments to bring peace to this troubled area and to work closely with the Congress to assure the fullest possible bipartisan coordination of our policies toward the region.

What I'm asking for is prompt congressional approval for the full reprogramming of funds for key current economic and security programs so that the people of Central America can hold the line against externally supported aggression. In addition, I am asking for prompt action on the supplemental request in these same areas to carry us through the current fiscal year and for early and favorable congressional action on my requests for fiscal year 1984. And finally, I am asking that the bipartisan consensus, which last year acted on the trade and tax provisions of the Caribbean Basin Initiative in the House, again take the lead to move this vital proposal

to the floor of both chambers. And, as I said before, the greatest share of these requests is targeted toward economic and humanitarian aid, not military.

What the Administration is asking for on behalf of freedom in Central America is so small, so minimal, considering what is at stake. The total amount requested for aid to all of Central America in 1984 is about \$600 million; that's less than one-tenth of what Americans will spend this year on coin-operated video games.

In summation, I say to you that tonight there can be no question: The national security of all the Americas is at stake in Central America. If we cannot defend ourselves there, we cannot expect to prevail elsewhere. Our credibility would collapse, our alliances would crumble, and the safety of our homeland would be put at jeopardy.

We have a vital interest, a moral duty, and a solemn responsibility. This is not a partisan issue. It is a question of our meeting our moral responsibility to ourselves, our friends, and our posterity. It is a duty that falls on all of us—the President, the Congress, and the people. We must perform it together. Who among us would wish to bear responsibility for failing to meet our shared obligation? ■

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Current
Policy No. 539

Is Peace Possible in Central America?

January 19, 1984



United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by Langhorne A. Motley, Assistant Secretary for Inter-American Affairs, before the Foreign Policy Association, New York, January 19, 1984.

The Events of 1983

There's nothing easy about the situation in Central America. The issues are so complex and the situation changing so rapidly that everyone keeps looking for "signals" of what is happening—and what will happen next.

The signals today, as usual, are mixed. I want to talk very specifically today about one kind of signal coming up from Central America: the signals which tell us on the one hand that peace is possible there and the ones that say the opposite. But before I even begin, remember that nations, like people, are capable of sending false signals—of making paper commitments that have no meaning.

With that in mind, let's look at some interesting signals.

- In January 1983, Colombia, Mexico, Panama, and Venezuela met on the island of Contadora to consider ways to prevent a widening conflict. After a slow beginning for what is now known as the Contadora process, all five Central American nations agreed in September to a document of objectives—21 in all—to serve as a basis for a comprehensive regional peace treaty. Just 10 days ago—on January 8—these governments agreed on specific procedures to

guide negotiations to implement these objectives.

- In El Salvador, meanwhile, the fighting continued. But last year a large-scale amnesty was approved by the Constituent Assembly and effectively and humanely implemented. More than 1,000 guerrillas and camp followers came in from the cold. Two meetings took place between the Peace Commission and the guerrilla representatives. That dialogue was interrupted when the guerrillas refused even to discuss participating in the direct popular elections for president now set for March 25. But the Salvadoran Government has carefully left the door open to renewed contacts.

- In Nicaragua, the Sandinistas gradually softened the tone of their statements. They agreed formally to the 21 objectives of the Contadora process—objectives that include democratization, arms control, an end to support for subversion, and gradual withdrawal of foreign military and security advisers. In November, the Sandinistas signaled they were reducing their ties to Cuba and to the Salvadoran guerrillas. They also initiated a dialogue with some of their internal opposition—although they have not yet responded to a call from all major anti-Sandinista forces to implement their 1979 commitments to the Organization of American States (OAS) and allow all political elements to compete for power in free and genuinely fair elections.

What does all this mean? Is there finally some reason to hope that Central America is on a course toward peace? Or

are all these signals examples of the dashed hopes and propaganda that plague Central America? What is the evidence?

Where Does Nicaragua Really Stand?

Let me start by reviewing the record with regard to Nicaragua. When in 1979 the Sandinistas formally pledged to the OAS to establish a democratic, pluralistic, and nonaligned regime, the United States took a leading role in the international effort to assist Nicaragua. In the first 21 months after the fall of Somoza, we authorized \$117.2 million in economic assistance. Despite many problems, the Carter Administration suspended aid disbursements only after it became clear that the Sandinistas were supporting the guerrillas in El Salvador.

In October 1980 under President Carter, then again in August 1981 and April 1982 under the Reagan Administration, the United States sought to persuade Nicaragua to renounce its support of the guerrilla insurgency in El Salvador. The Nicaraguans did not respond to our concerns. In October 1982 in San Jose, Costa Rica, eight democratically elected governments made fair and balanced proposals for a regional peace. Nicaragua refused even to receive the Costa Rican Foreign Minister as emissary of this group.

The sources of Nicaragua's intransigence were clear. Internally, the Sandinista leaders had succeeded in removing from influence everyone who disagreed with them. They had built an army four times the size of Somoza's notorious National Guard. And they had developed close military ties to Cuba and the Soviet Union, which included thousands of advisers and a sophisticated joint effort to destabilize El Salvador and other neighboring governments.

The regime in Managua was so arrogantly confident in its ability to impose its will that it refused to listen to either its internal opposition or its neighbors. A former member of that regime, Arturo Cruz, put Nicaragua's situation in a nutshell in the summer 1983 issue of *Foreign Affairs*:

There is . . . an element of self-destruction in the present conduct of the Revolution. Certain Sandinista revolutionary leaders' rejection of pragmatism is puzzling. The allegiance to an internationalist ideology . . . at the expense of the basic interests of the nation-state of Nicaragua, is unacceptable.

Then, last July, on the fourth anniversary of the Sandinista revolution, Junta Coordinator Daniel Ortega offered a six-point peace proposal. The proposal

was one sided. It would, for example, have cut off all assistance to the Government of El Salvador while leaving Cuban and Soviet assistance to the Government of Nicaragua wholly unencumbered. It said nothing about democratization, foreign military advisers, or verification. But for the first time the Sandinistas accepted a multilateral dialogue and hinted at a willingness to suspend their support for the Salvadoran guerrillas. That much was encouraging, and we said so.

Costa Rica, El Salvador, Guatemala, and Honduras quickly seized the initiative. They put forward an eight-point proposal—the "Bases for Peace." On September 9, meeting in Panama under Contadora auspices, Nicaragua joined them in agreeing to the 21 objectives I mentioned earlier. The "Document of Objectives" called for the establishment of democratic systems of government; for the reduction of current inventories of arms and military personnel; for the proscription of foreign military bases; for the reduction and eventual elimination of foreign military advisers and troops; for an end to support for subversion; and for adequate means of verification and control. These were, and are, objectives on which a single, comprehensive, regional treaty could be based.

This agreement was important progress. But what was Nicaragua's next step?

On October 20—that is, just weeks after apparently accepting the 21 objectives—Nicaragua presented four draft treaties based on the July Ortega proposals. These drafts:

- Disregarded the objective of restoring military balance among states of the region;
- Sought again to delegitimize the elected Government of El Salvador by treating it as simply one of two belligerent parties;
- Ignored the Contadora objective to establish democratic institutions; and
- Made no serious proposal for verification and control.

In reverting to its own partial agenda and presenting it at the United Nations, Nicaragua undercut the 21 objectives of Contadora, both procedurally and substantively. Instead of acting to build confidence that it was genuinely seeking accommodation, Nicaragua strengthened the arguments of those who saw its proposals as a renewed campaign of deception designed to *avoid* real accommodation. I repeat: In the guise of "negotiating," Nicaragua was *rejecting* accommodation.

Then, in November, word began to spread that Nicaragua was reducing the Cuban presence; that it was asking the Salvadoran FMLN/FDR [Farabundo Marti National Liberation Front/Revolutionary Democratic Front] to leave Managua; and that a new dialogue with the church and internal opposition was beginning. In December, Nicaragua proposed a freeze on arms imports and the reciprocal withdrawal of foreign military advisers.

These signals suggested that Nicaragua recognized it would have to respond to the concerns expressed by its democratic opposition and by its neighbors in Central America.

The United States welcomed these signals. Secretary Shultz said so publicly on December 5. And, you may be confident, we have been exploring them thoroughly in our private diplomacy.

But the Secretary also said that what matters is the reality behind the rhetoric. Look at the evidence:

- Nicaragua claimed it was reducing the Cuban presence. But, as Interior Minister Borge himself admitted publicly, only normal, year-end rotations of teachers were involved. We have seen no evidence that any of Cuba's 2,000 military and security advisers have left Nicaragua. And while they, not teachers, are the main source of concern, we learned from Grenada that even construction workers can beat their shovels into AK-47s pretty quickly.

- Nicaragua had implied it was forcing the Salvadoran FMLN/FDR out of Managua. But although a few FDR leaders did leave Nicaragua, the FMLN's sophisticated command and control headquarters and infrastructure remain intact and operating in Nicaragua.

- Nicaragua claimed it was offering a generous amnesty to the Miskito Indians. Yet just before Christmas, another 1,200 Miskito men, women, and children chose to flee under hostile conditions into Honduras rather than suffer continued Sandinista repression.

Other Nicaraguan measures had a little more substance. Censorship of *La Prensa* has, at least temporarily, been relaxed. And, after the extraordinary crackdown on the church in October, conversations with church leaders were begun. But there has been no easing of restrictions on independent radio stations and harassment of *La Prensa's* advertisers, distributors, and journalists continues.

In short, despite the rhetoric, there is still no *evidence* that the Sandinistas are taking any of the essential measures which, if actually implemented, could help bring about among the states of the region a viable and lasting peace.

What the United States Seeks From Nicaragua

To remove any possible ambiguity, let me say again what those measures are:

- The establishment of a genuinely democratic regime;
- A definitive end to Nicaragua's support for guerrilla insurgencies and terrorism;
- Severance of Nicaraguan military and security ties to Cuba and the Soviet bloc; and
- Reductions in Nicaraguan military strength to levels that would restore military balance between Nicaragua and its neighbors.

Let me comment on these points.

First, none of these measures would be inconsistent with the goals that the Sandinistas publicly set for themselves in 1979. The Sandinistas at that time committed themselves to a policy of non-alignment, nonintervention, and democratic pluralism. We ask only that they respect the principles they themselves proclaimed.

Second, Nicaragua agreed to negotiate a treaty that would implement these goals when it signed the Contadora "Document of Objectives" last September. I repeat, we are only asking Nicaragua to do what it has formally and publicly committed itself to do.

Third, eight other states of the region, including the United States, have signed a public document—the San Jose Declaration of October 4, 1982—making clear that they and we are committed to corresponding actions. As the President told the joint session of Congress last April, the United States will support a balanced and comprehensive regional agreement in Central America that is fully verifiable and reciprocal.

Fourth, Nicaraguan implementation of these four points, whether unilaterally or through negotiations, would remove the causes of the deterioration in Nicaragua's relationship with the United States. A prompt return to a cooperative relationship, including economic assistance and CBI [Caribbean Basin Initiative] beneficiary status, would then be possible.

Fifth, the effect of such measures would be profoundly beneficial to the people of Central America:

- In the absence of the support it receives through Nicaragua, the FMLN in El Salvador would have to reconsider its refusal to consider participating in national elections. Democratic means of internal reconciliation—as opposed to power-sharing contrivances stemming from the barrel of a gun—would thus be powerfully advanced.
- With an end to regional conflicts and the implementation in Nicaragua of genuinely democratic processes, those who have taken up arms against the Sandinistas would have no further cause for fighting.
- With the restoration of regional military balance, countries that desperately need to devote all available resources to economic recovery would be spared the dangerous and debilitating burden of procuring arms. The Central American Common Market and other institutions vital to regional integration and development would receive an important boost.
- Finally, with the end of the Cuban/Soviet military presence, the region would cease being a battlefield in the East-West conflict, a role the region neither wants nor can afford.

U.S. Support for a Verifiable Agreement

Let me repeat: The Central American states—Nicaragua included—are formally and officially committed to negotiating a regional peace treaty to implement these points. The reasons I have just outlined make clear that it is in our interest to help the Central Americans achieve the 21 objectives of Contadora. Our support for regional dialogue is thus based on the most fundamental of foreign policy considerations: enlightened self-interest.

Senator Richard Stone, President Reagan's special envoy to Central America, has made U.S. support for regional negotiations unambiguous. He played a key role in getting the dialogue between the Salvadoran Peace Commission and the FMLN/FDR started. His diplomatic efforts have played a major facilitating role in the Contadora process.

Regional negotiations are now in an intermediate stage. Under the Contadora agreement of January 8, the five Central American governments are creating three working commissions on security, political, and socioeconomic affairs. Working with the Contadora Vice Ministers of Foreign Affairs, each com-

mission will adopt a work plan to be completed by the end of April.

The January 8 agreement also contains norms to guide the work in each of the three areas. The degree of specificity called for on security matters is encouraging. For example, they will prepare a registry, or detailed inventory, of military installations, weapons, and troops from which to negotiate ceilings to restore the military balance disrupted by Nicaragua's military buildup since 1979.

Our own experience in arms control negotiations makes clear that such a data exchange and registry are absolutely necessary to a successfully negotiated agreement. And our experience in negotiation with communist governments underlines the need to carefully verify the accuracy of such a registry, using both technical means and technically qualified observation teams with full authority to make on-site evaluations.

Looking ahead, we believe it will prove necessary to provide for verification of compliance with the obligations of an eventual treaty. Reliable means of enforcement of treaty obligations are equally necessary.

Another element, implicit in the principles agreement of January 8, is balanced implementation. Nicaragua's October proposals deferred issues of interest to the other Central American states while calling for immediate implementation of commitments to benefit Nicaragua. By adopting identical timetables for the three commissions, the January 8 agreement rejects such partiality in prioritizing the fundamental issues.

The Hard Road Ahead

It is certainly too soon to conclude that an effective regional agreement can be achieved. The most difficult negotiations lie ahead. Substantive balance and effective verification and enforcement will be essential to move beyond a document of exhortation and good intentions. But it is encouraging that the Central Americans are pursuing their dialogue with persistence and realism.

As they move from conceptual to practical problems, we will continue to offer whatever assistance will facilitate implementation of the 21 objectives. That is the mission the President has assigned to Senator Stone, a mission

Dick Stone has worked tirelessly to fulfill. It is also a mission that the National Bipartisan Commission on Central America has fully endorsed.

But no one should harbor any illusions that a treaty alone will resolve the crisis. Under the most optimistic of scenarios, we are a long way from an end to the crisis in Central America. Nicaragua has disproportionate military power controlled by a Marxist-Leninist minority operating without democratic checks.

Even if these issues were addressed, there would still be a need to defend against all those—on the right as well as the left—who would exploit underdevelopment for antidemocratic ends. There would still be a need to ensure that political processes are opened to wider and fairer participation. There would still be a need for land and other social and economic reforms. There would still be a need to build effective protection for human rights. There would still be a need to strengthen judicial processes against their ancient enemies of corruption and intimidation.

In short, there would still be a need for political reconstruction and economic recovery. The National Bipartisan Commission report—a remarkable consensus—concluded that the overall crisis is even more acute than they had believed. Dr. Kissinger [commission chairman] and the other commission members describe a crisis too profound to be subject to quick or paper “fixes.”

- Economic resources are essential—in sizable amounts and reliably sustained. And these resources must be put to prudent use.

- Reforms must continue. The Central Americans must continue to attack the local socioeconomic and political sources of the conflict. Abuses of human rights by the violent right and the violent left must stop.

- Security assistance is vital. Guerilla forces cannot be allowed to spread poverty and destruction or to win a military victory. The United States has both moral and strategic interests in preventing a communist Central America.

- And this help must be in sufficient quantity to get the job done. The bipartisan commission put it this way with regard to El Salvador:

There might be an argument for doing nothing to help the government of El Salvador. There might be an argument for doing a great deal more. There is, however, no logical argument for giving some aid but not enough. The worst possible policy for El Salvador is to provide just enough aid to keep the war going, but too little to wage it successfully.

In concert with these measures, a regional dialogue to implement the 21 objectives, and thereby reduce sources of tension among states, can help to bring a lasting and real peace to Central America. But for that to happen, we will, as Secretary Shultz said in December, need to see actions to match the signals. ■

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DIGEST

WHITE HOUSE *DIGEST*

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White House Office of Media Relations and Planning

July 6, 1983

This edition of the White House Digest focuses on Soviet and Cuban activities in the Caribbean region. In three parts, the information contained herein provides a brief outline of the basic facts about the extent and nature of that activity.

I. Soviet/Cuban Threat and Buildup in the Caribbean

Since 1978 we have seen an ever increasing Soviet presence in the Caribbean Region. The USSR through its surrogate--Cuba--has been able to establish a permanent presence in the Western Hemisphere.

The Characteristics of the Soviet/Cuban Build-up: Men, Money, Material

- The Soviet Union maintains and reinforces its presence by:
 - Deploying its long range Bear reconnaissance and anti-submarine warfare aircraft to the region on a regular basis.
 - Deploying its naval combatants for joint training exercises with Cuba.
 - Providing a Soviet Brigade of approximately 3,000 men stationed near Havana and an additional presence of 2,500 military advisors.
 - Providing Cuba with 8,000 civilian advisors.
 - Maintaining the largest intelligence monitoring/telecommunications facility outside the USSR.
- In 1982, the Soviets and Cubans had 50 times as many military advisors in Latin America as did the US. Last year the Soviets increased their military advisors in Cuba by 500.
- The USSR has also provided a steady stream of military equipment to Cuba. In 1981 alone, Moscow provided 66,000 metric tons in military assistance valued at \$600 million. Deliveries in 1982 exceeded 1981 by 2,000 metric tons and amounted to over \$1 billion in military assistance in the last two years.

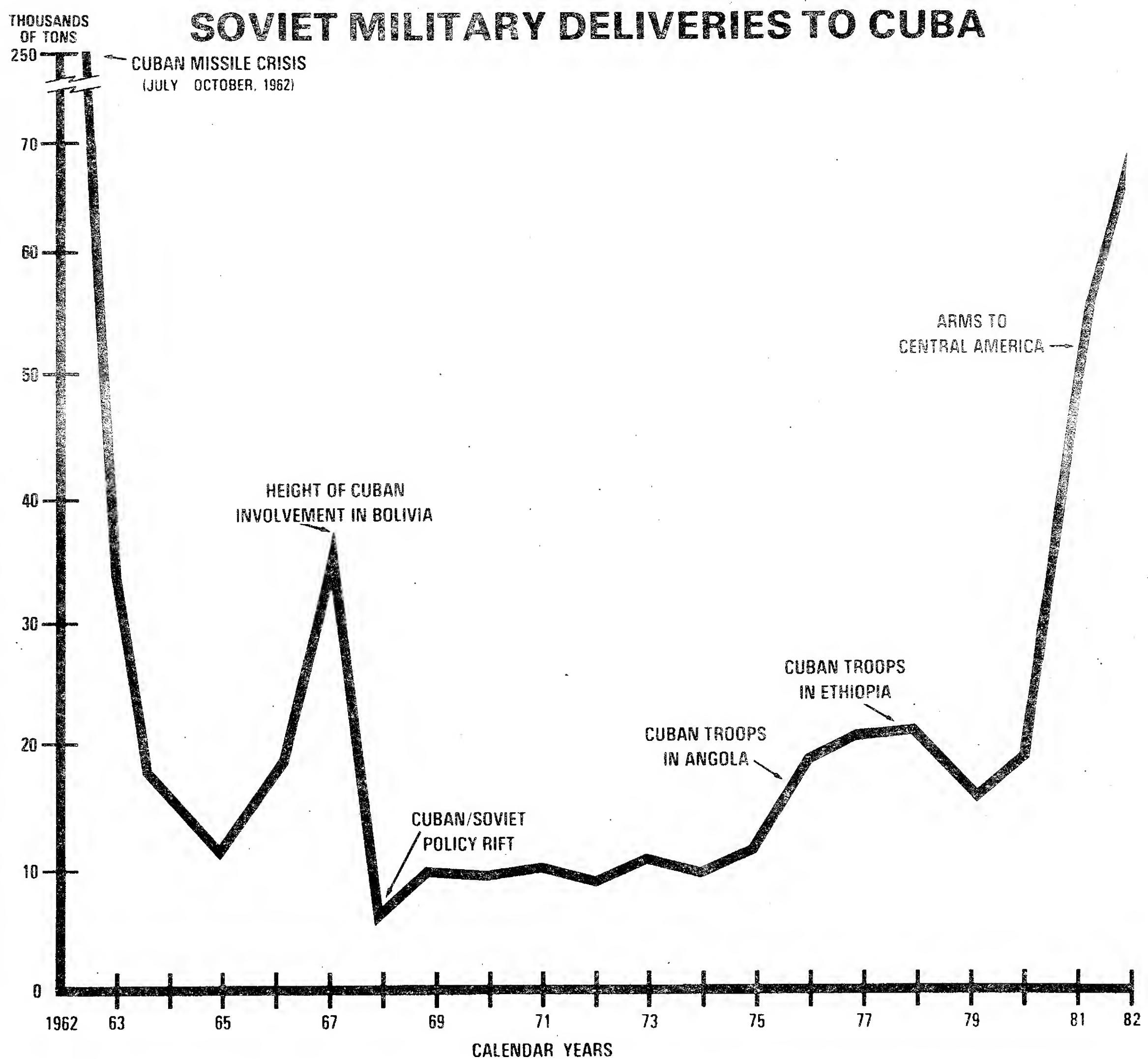
- Cuban armed forces have grown to a size disproportionate for defensive needs:

- Cuba possesses an Army of over 225,000; a Navy of 11,000 and air defense forces of 16,000, not including 500 thousand para-military troops.
- Cubans have well over 200 MIG fighter aircraft.
- Castro has about 65,000 Cubans serving overseas: 40,000 military (25,000 troops in Angola, about 12,000 in Ethiopia) and 25,000 civilian technicians.
- Cuba has 2.3% of its population in the regular armed forces, one of every 20 Cubans participates in some security mission.

- Moscow underwrites the activities of its Cuban surrogate at a cost exceeding \$4 billion annually (1/4 of Cuba's GNP) and supports efforts to collect funds, arms, and supplies from the communist bloc for guerrilla activities in Central America and the Caribbean.

- The number of Soviet Bloc academic grants offered annually to Latin American students jumped from 400 in the 1960's to about 7,000 now. In 1979 Moscow admitted to sponsoring 7,000 Cubans for studies in the Soviet Union. Last year 700 Nicaraguans were reported studying there and an additional 300 scholarships were being provided. Scholarships include free room, board, tuition, transportation, medical care and a small stipend.

- About 3,000 Latin American students, including 1,600 Nicaraguans, are studying in Cuba. Cuba has constructed 17 schools for foreigners, each costing about \$2 million to build and about \$600,000 to operate annually.



II. Spreading Soviet/Cuban Intervention Throughout The Region

- The implication of the Soviet/Cuban buildup is that it provides a platform for spreading subversion and supporting guerrillas throughout the region.

- It was Cuba that acted as the catalyst to organize and unify the far-left groups in El Salvador, assisted in developing military strategy, and encouraged the guerrillas to launch the ill-fated "final" offensive in January 1981. Cuba continues to be vital in training and supporting continuing offensives in El Salvador by funneling weapons and supplies via Nicaragua to rebel forces in El Salvador.

- Castro is actively engaged in converting Nicaragua into another Cuba. There are approximately 5,500 Cuban civilian advisors and about 1,750 Cuban military and security advisors in Nicaragua.

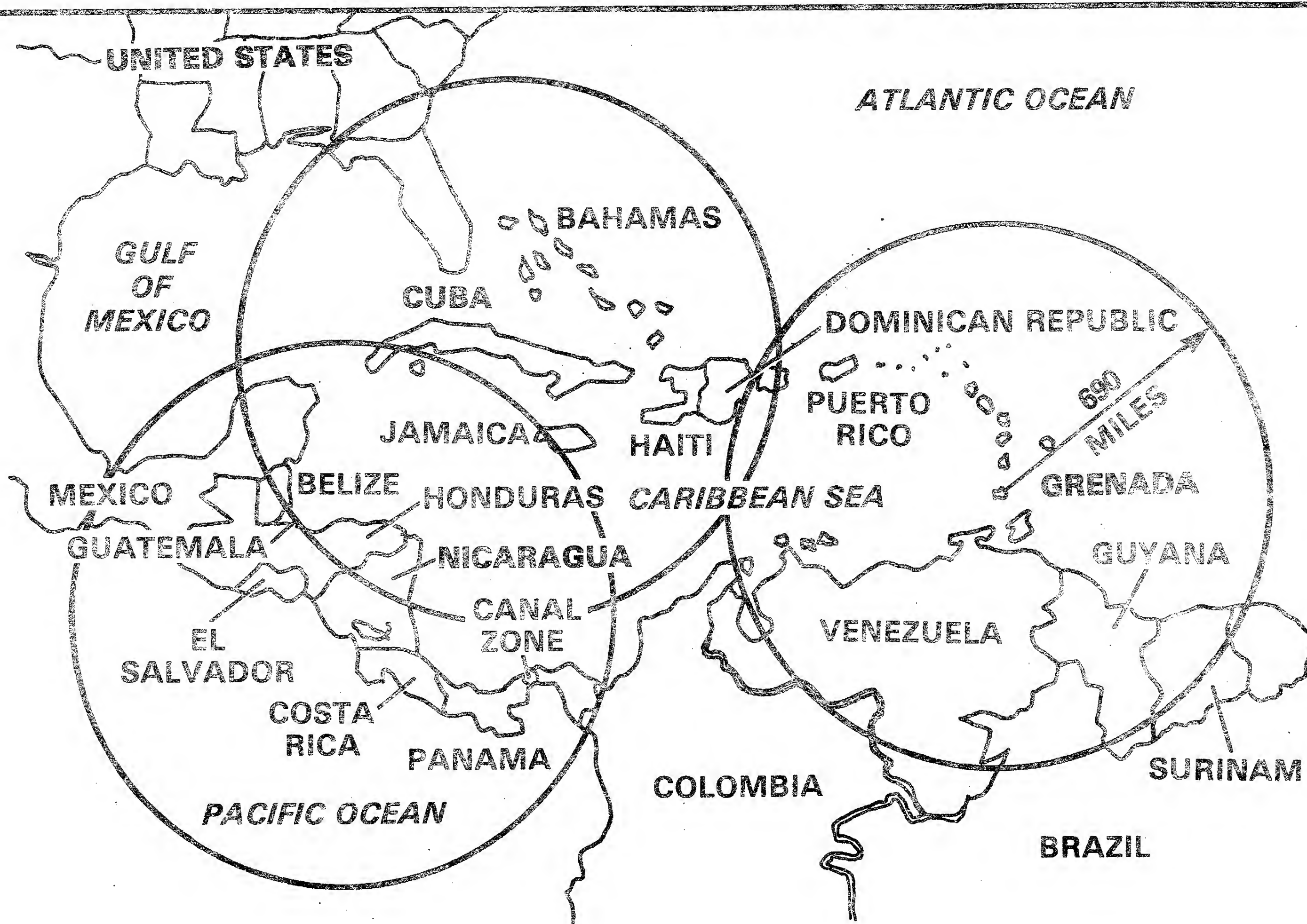
- The Sandinistas themselves have about 75,000 men under arms in their active armed forces, reserves, militia, police and security forces. At its present strength, the Sandinista Army represents the largest military force in the history of Central America. The Sandinistas have built 36 new military garrisons since Somoza's downfall.

- Approximately 70 Nicaraguans were sent to Bulgaria for training as pilots and mechanics. Existing landing strips in Nicaragua are being lengthened and will be able to accommodate the most sophisticated Soviet jet aircraft. MIGs could be flown in quickly from Cuba.

- In Grenada, which has a strategic location in the eastern Caribbean, we are concerned because the Soviets and Cubans are constructing facilities, including an airfield, the eventual use of which is unknown.

- In Suriname, the Cuban Ambassador is a senior intelligence officer who was formerly Chief of the Caribbean Section of the Americas Department of the Cuban Communist Party. The America department is responsible for Cuban covert activities, and is much more important in formulating Cuban policy toward Latin America than is the Cuban Foreign Ministry. The Cuban Ambassador maintains a very close relationship with LTC Desire Bouterse, Suriname's military leader, and has continuous access to key leaders.

RADIUS OF ACTION FOR MIG AIRCRAFT STATIONED IN CUBA, NICARAGUA AND GRENADA



III. The Threat Posed by Soviet Expansionism

- Such communist expansion could lead to an extensive and permanent Soviet presence and an increased Soviet strategic capability in the region. This would create significant military consequences for the US:

- It could place hostile forces and weapons systems within striking distance of targets in the US.
- It could provide bases for use in covert operations against the US and our neighbors.
- It could provide for prepositioning of Soviet equipment, supplies and ammunition in our hemisphere.
- It could allow the Soviet Pacific and Atlantic fleets to operate near our shores without having to return to the USSR for maintenance.
- It could threaten our Caribbean Sea Lines of Communication through which a large volume of our goods pass; thus endangering the economic well-being of our nation.
- And finally, it could cause the US to divert scarce resources in manpower and materiel from other areas of the world to protect an area previously considered militarily secure.

